

Russia declares inflation victory

By John Thornhill and Graham Bowley in Moscow

Mr Sergei Dubinin, Russia's central bank governor, has declared victory in the country's protracted war with inflation. The economy had entered an era of relative price stability which would lead to sustained growth, he said.

"We have achieved a normal financial stabilisation which western specialists would describe as orthodox," he said in an interview. "It is true that it has taken us a longer time to achieve than in most classical examples. We have spent three years on it rather than just one. But this is because we did not have a fully orthodox economy and our anti-inflationary programme went hand in hand with a structural reform of the economy," he said.

After more than three years of runaway inflation, prices in the Russian economy fell for the first time in August by 0.2 per cent, thanks to the central bank's tough monetary squeeze. Mr Dubinin said inflation had been 16 per cent in the first half of the year and was likely to be 20 per cent for the whole year. That com-

pared with an annual rate of 2,318 per cent in 1992 and 131 per cent last year.

Just two years ago, Russian industrialists were bemoaning the scourge of inflation and the seemingly inexorable decline of the rouble, which lost a fifth of its value on Black Tuesday in autumn 1994.

The central bank, then headed by Mr Victor Gerashchenko, was widely blamed for failing to appreciate the relationship between money creation and inflation. Mr Jeffrey Sachs, the Harvard university economist, called Mr Gerashchenko the "worst central banker in the world".

But in a remarkable turnaround, Russia's bankers now accuse the central bank of running too tight a monetary policy, complaining about the end of easy money. The central bank has

taken great strides in establishing the rouble as a credible currency.

This has all come as something of a personal vindication for Mr Dubinin. In 1994, President Boris Yeltsin sacked him as acting finance minister in the wake of Black Tuesday, blaming him, however unfairly, for the rouble's collapse.

But at the end of last year, Mr Dubinin was restored to favour by being appointed central bank governor and has created a strong team of like-minded economists who have played an important role in shaping Russian economic policy.

His fierce adherence to anti-inflationary policies and determination to defend the value of the currency could have been taken out of the Bundesbank's rule book. This tough monetary

approach first pursued by Mrs Tatyana Paramonova and then by Mr Dubinin has been much appreciated by the International Monetary Fund, which has backed Russia's stabilisation programme with a \$10.2bn loan.

But the bank is still a relatively immature institution and its lack of experience is evident in many fields of activity. Its greatest challenges will be to help many of Russia's banks manage their way out of their financial straits and to lower interest rates, which remain cripplingly high.

Mr Dubinin estimates that 15 per cent of Russia's 2,150 banks make losses.

In the interview, he tried to damp down fears of a banking crisis, suggesting repeated rumours of a pending collapse could become a self-fulfilling prophecy.

He said casualties would continue among Russia's banks as they adjusted to the low inflation environment but he dismissed the possibility of a broader failure of the banking system.

Mr Dubinin said Russia would return to the international capital markets by launching a eurobond within the next three months, and was currently talking to credit rating agencies. It is believed Russia is seeking a credit rating of between B+ and BB, which would put the country on par with Brazil and Romania but would be a sub-investment-grade rating.

Market sources suggested Russia would initially seek to raise between \$300m and \$500m in mid-November. J.P. Morgan and SBC Warburg have been retained to lead-manage the launch.

Three old foes go on manoeuvres together

By Bruce Clark, recently in Drawsko, Poland

General Oksandr Kuzmuk, a swashbuckling figure in combat dress and a luxuriant black moustache, beamed with schoolboy delight when he was invited to be the first Ukrainian defence minister to drive a British Challenger tank.

"The faster you go, the fewer the potholes," the career soldier whooped as he boarded the 50-ton machine - about whose workings he was very well informed - and surveyed the Polish countryside where Britain's 7th armoured brigade is conducting its first full exercise since the Gulf war.

The new enthusiasms of this former Soviet tank commander were among the stranger side-effects of the war games which began last week in central Europe.

Mr Nicholas Soames, the British armed forces minister, joined Gen Kuzmuk and Mr Stanislaw Dobrzanski, the Polish defence minister, in attending the manoeuvres and proclaiming one of Europe's lesser known security partnerships.

After watching a giant UK exercise in Poland, aimed at practising for high-intensity war, and a small peace-keeping drill in Ukraine, the ministers announced military co-operation linking London, Warsaw and Kiev.

In practical terms, this means pooling skills in such areas as logistics, field medicine and peace-keeping doctrine. The three countries agreed to practise parachuting in Ukraine. More important, Gen Kuzmuk offered to host an exercise involving UK aircraft and Ukraine's Soviet-made air defences.

On the surface, the meeting was longer on banter than substance. Untouched by faddish western ideas on civilian control of the military, Gen Kuzmuk was scathing about the fact that his fellow ministers were civilians - and genially offered to promote them both to rank of sergeant.

But behind all the bonhomie, there is a keen strategic concern which is shared by all partners in this unlikely triangle: the need to avoid sharp dividing lines in the security order that is emerging in post-cold war Europe.

The border between Poland, which is confident of joining Nato, and Ukraine, which has made it clear that it will not join any military bloc, could become one of Europe's new fault lines unless Kiev and Warsaw husband their ties.

To counter this danger, Ukraine has pursued the closest possible ties with Nato short of full membership. Ironically, alliance officials say, Nato's partnership with Kiev has come to resemble the "special relationship" which the alliance has tried unsuccessfully to construct with Russia.

But Ukraine may still be at a disadvantage if Poland leaps ahead to become a full member of the western alliance - and thus gains full access to Nato's infrastructure, planning system, political consultations and secrets.

Pressed last week to clarify his country's strategic orientation, Gen Kuzmuk replied with a characteristic swagger: "We seek partners everywhere, to our north, to our east and to our west - but we rely only on ourselves."

Troops begin to leave Chechnya

By Matthew Kaminski in Moscow and Michael Lindemann in Bonn

Russian troops began to leave Chechnya yesterday after a farewell ceremony which buoyed hopes that the 21-month conflict may be coming to an end.

But the fragile peace is still threatened by political opposition in Moscow - from top officers and politicians who see the pull-out as a humiliating retreat for Russia.

Five hundred troops of the 133rd battalion, which participated in the first attack on Grozny, the Chechen capital, in 1994, were returning to their bases near St Petersburg last night under a peace deal signed with Chechen separatist fighters in August.

Mr Alexander Lebed, the national security chief, may return to the region tomorrow to oversee the implementation of the fragile deal he brokered after Chechen



A Russian soldier on patrol outside the demolished presidential palace in Grozny

fighters retook Grozny in a surprise attack.

Gen Anatoly Kulikov, the minister of the interior, who has been at loggerheads with Mr Lebed since the security chief demanded his ouster a few weeks ago, yesterday launched a veiled attack on the peace process.

"There's been enough humiliation of the military before the whole world... calling them drunkards and so forth," Mr Kulikov said.

The fate of the accord also hinges largely on the decisions of President Boris

Yeltsin, who is to undergo heart surgery this month.

Mr Yeltsin on Saturday met Mr Helmut Kohl, the German chancellor, who has emerged as one of the Kremlin's most stalwart allies.

The German leader later assured reporters that Mr Yeltsin was "fully active throughout the discussions". Mr Kohl is expected to offer a more detailed report in conversations with US President Bill Clinton, President Jacques Chirac of France and other western heads of government.

He is also expected to discuss how exactly Russia can be persuaded to agree to the eastern enlargement of Nato, a subject which has so far met steadfast Russian resistance.

During his visit to Moscow Mr Kohl emphasised that Russia did not have a right to veto Nato's expansion - which is expected to include such countries as Poland, Hungary and the Czech Republic - but there was no sign of a breakthrough on the sensitive question.

Former Belgian minister arrested in murder inquiry

By Neil Buckley in Brussels

A former Belgian minister was arrested yesterday in connection with the murder in 1991 of a former Socialist deputy prime minister.

The five-year investigation of the death of Mr André Cools had provoked Belgium's biggest political scandal by uncovering three fraud cases, including the Agusta bribery case, which led to the resignation of four ministers and of the Belgian secretary-general of Nato, Mr Willy Claes.

Mr Alain Van der Biest, former Socialist interior minister in the French-speaking region of Wallonia, was arrested yesterday in Liège in connection with Mr

Cools' murder and the attempted murder of Mr Cools' girlfriend, Ms Marie-Hélène Joiret.

His detention followed Friday's arrest on similar charges of four others: Mr Richard Taxquet, Mr Van der Biest's former private secretary; and three Liège-based Italians, Mr Carlo Todarello - Mr Taxquet's uncle - Mr Domenico "Mimo" Castellino, and Mr Cosimo "Simon" Salazzo.

An international arrest warrant was also issued on Friday for Mr Pino di Mauro, Mr Van der Biest's former driver, who is abroad.

Justice officials yesterday denied earlier suggestions of a link between the Cools arrests and a three-week-old

paedophile murder case which has shocked Belgium. But it is thought that the paedophile case, which has uncovered a criminal network involved in child pornography and in trafficking stolen cars, may have provided new leads.

The Liège judicial authorities said Friday's arrests resulted mainly from new information discovered by detectives in June.

Police believe the motive for Mr Cools' killing may have been his attempt to remove Mr Van der Biest in an anti-corruption drive.

Mr Van der Biest continued to deny any involvement with the murder through his lawyer yesterday. Dateline, Page 9

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Germany to seek ceiling for contributions to EU

By Peter Norman in Bonn

Germany, long the paymaster of the European Union, is to press for a ceiling on its net contributions to the EU budget, under plans being drafted in the Bonn finance ministry.

Although a restructuring of EU finances is not due until 1999, ministry officials are already working out a comprehensive strategy which would cut Germany's net contribution to the EU budget and end the present system of EU budget rebates for Britain alone.

Germany's EU budget contributions have become a sensitive issue as austerity has begun to bite at home. Although Germany has the biggest economy in Europe, its takeover of the former communist east Germany means it is no longer among the richest. In terms of gross domestic product per head, it ranks sixth of the 15 EU member states.

Bonn finances about 30 per cent of the EU budget in gross terms. Its net contribution - gross payments less flows of EU cash back to Germany - is about 70 per

cent, amounting to more than Ecu10bn (\$12.7bn) a year, or about 0.6 per cent of GDP. It is more than twice the combined payments of Britain, France, the Netherlands and Italy, the EU's other net contributors.

The Bonn finance ministry wants to cap member states' net contributions at certain percentages of GDP. These, so far unspecified, would reflect different levels of national wealth. Any contributions above the limits would be shared out and paid by other member states.

Bonn has no plans to cut direct payments.

Such a mechanism would hit Luxembourg, Belgium and Denmark, which are net beneficiaries from the EU budget and have higher per capita GDPs than Germany. France, a small net contributor and the fifth richest country, could also have to pay more.

The German plan would involve difficult negotiations, especially with Britain, which won its rebate in the 1980s after furious arguments between the former prime minister, Mrs Margaret Thatcher,

and other EU leaders.

However, writing recently in the magazine *Integration*, Mr Jürgen Stark, the state secretary in the finance ministry, claimed that decisions taken by the European Council at its June 1994 summit in Fontainebleau entitled other member states to benefit from mechanisms correcting EU budget contributions.

Other aspects of the ministry's reform strategy could appeal to the UK. Germany wants to impose strict disci-

pline on EU outlays up to 1999 and, with Britain, has already made a start by forcing cuts in the EU draft budget for 1997.

It wants to extend the already agreed ceiling for EU revenues of 1.27 per cent of EU GDP beyond the present limit of 1999. Mr Waigel's ministry will also press for more restrictive use of the EU's regional, social and structural funds. It wants to encourage member states to borrow more from the European Investment Bank rather than rely on EU transfers to finance development. Bonn believes more credit-based finance would make it be easier to combat EU frauds.

Bonn officials hope that fairer EU budget contributions would exert downward pressure on agricultural prices. The Bonn drive to reform the budget could affect the terms of EU entry for the former communist states of eastern Europe. Germany could be expected to call for lengthy transition periods for new members, partly to limit the costs that would have to be carried by the EU's existing 15 states.

Euro will not be easy money

If any European politicians thought switching to a single currency would be simple, a 56-page French government-backed report may change their minds. It provides a graphic - and unimpressive - account of the problems the planned currency transition will create for European companies.

The switch, the report suggests, is likely to create a fiendishly complex currency picture after 1999. This could pose significant problems for smaller suppliers and customers, particularly if they do not plan for it.

The report is one of the first of its kind. The fact that it has been conducted at all is a testament to the close co-ordination - and *dirigiste* instincts - that mark the French government's preparations for European monetary union.

The National Credit Council, which drew up the report, is jointly sponsored by the French finance ministry and Banque de France. Its findings, drawn from extensive interviews with 20 large French companies, were discussed with the French employers' group, the Patronat.

The main issue for companies is the three-year transition period drawn up by EU heads of government. In

Madrid last year, they decided that when the euro, the single currency, was introduced in 1999, it would initially exist only as a unit of account. Only in 2002, when euro notes and coins are introduced, will national currencies disappear.

A French study predicts fiendishly complex transition period, reports Gillian Tett

For the transition, national currencies will continue to be used - albeit at irrevocably fixed exchange rates.

In theory, nobody can be either compelled to use the euro, or stopped from doing so, during this period. European governments hope allowing companies three years to change will create an orderly transition.

In practice the ambiguity threatens to create problems. For example, France plans to change its financial markets over to the euro in 1999, but retailers and the public sector will be working primarily with francs until 2002.

This will cause problems for many companies, if they

are asked to pay suppliers in euros while their customers are paying them in francs.

Most large companies, the report says, oppose using both simultaneously. "There is almost unanimous opposition to the idea of dual accounting between 1999 and 2002," it warns.

Some companies, it notes, mainly the largest exporters, have already decided to deal with the issue by using the euro as quickly as possible. But they will still need to pay their employees in francs.

And they face another difficulty: the French government has not indicated whether companies can file accounts or pay taxes in francs.

And many companies remain "paradoxically" vague about how they will manage intra-group payments - let alone business with suppliers or customers who might be accounting in a different unit, it adds.

Large companies may not find it too difficult to cope with two currencies if they have well developed IT systems and are used to coping with several currencies.

The real victims could be smaller groups, particularly if larger customers or suppliers move rapidly to the euro. The report points out that

most "large companies have not yet given any consideration to their links with small and medium ones".

Mr Jacques Crayssal, economic director of the Patronat, says: "It is very important to protect the small companies from the financial pressure from the large companies."

Mr Benoît Jolivet, president of the National Credit Council, says most small companies are still ignorant of the issues. Even among the larger ones, understanding is patchy: although many have established working groups to study Emu, few have yet involved real business decision makers.

French officials insist that this should change soon. But if it does, this in itself may have interesting consequences.

Several French companies, such as Rhône-Poulenc, are already calling for a reduction in the transition period. And as more companies wake up to the logistics of the change-over, these corporate pleas could swell.

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French parties split over PR

By Andrew Jack in Paris

Proposals by the French government to consider changing the method of electing France's National Assembly - the lower house of parliament - in the 1998 national elections triggered deep divisions over the weekend between members of the ruling centre-right political parties as well as the country's opposition.

Mr Alain Juppé, the prime minister, surprised France at the end of last week when he announced that he was considering "a dose of proportional representation" for the assembly. The senate, the upper chamber, is already partly elected by PR.

Both Mr François Léotard, leader of the UDF party, which is part of the ruling majority, and Mr François Bayrou, the deputy head, expressed their reservations during the party's conference over the weekend.

But the potential change to the majority voting system in the National Assembly was backed by two probable beneficiaries - the extreme right-wing National Front party and Mr Robert Hue, the Communist leader.

Mr Juppé's comments have dominated the headlines since and distracted attention from the package of tax cuts he unveiled in an effort to boost the country's flagging economy.

While clearly preferring to discuss his tax measures, Mr

Juppé confirmed in an interview in Saturday's *Le Figaro* newspaper that it was "perhaps" justified to re-open a debate about the French electoral system.

He said he wanted a voting system which permitted the creation of a clear ruling party in power, while "as a Gaullist" ensuring that minority groups had a voice.

The senate system consists of "first-past-the-post" majority voting, but with proportional representation in the 14 most densely populated departments.

The proposals raised fears by many of a return to the situation in 1986, when the Socialist president, François Mitterrand, instigated proportional representation to divide his right-wing opponents, opening the way for the National Front to take seats in the assembly.

According to *Le Monde*, Mr Juppé's renewed interest in modifications to the existing electoral system follows a report by Mr Charles Pasqua, the former interior minister, analysing the likely results of the 1998 elections.

Projections by the newspaper based on recent opinion polls suggest that under the existing majority-voting system, the opposition Socialists would gain control of the National Assembly, while with proportional representation they would lose, with the National Front gaining up to 35 seats and the ecologists three.

Soldier shot dead in Cyprus

A Turkish Cypriot soldier was killed and another seriously wounded yesterday when shots were fired at their post near the UN-patrolled buffer zone that separates Greek and Turkish Cypriots, officials said, Reuter reports from Nicosia.

It was not immediately clear who was responsible for the shooting but Turkish Cypriots and Turkey blamed Greek Cypriot soldiers and warned that the incident would heighten tension and hamper efforts to resolve the Cyprus problem.

"The guns used are similar to the guns used by the Greek [Cypriot] police and the military," Mrs Tansu Çiller, the Turkish foreign minister, said.

The Cyprus government categorically denied that Greek Cypriot forces or police were involved in the incident.

There were fears that the incident was related to the killing of two Greek Cypriot men during anti-Turkish demonstrations on the demarcation line last month.

The Cyprus government spokesman Mr Yiannakis Cassoulides, said police had no reports about shots from the "free areas to the Turkish-occupied areas" and described the incident as "an act of Turkish provocation", implying that Turkey had killed one of their own men.

Simitis calls for sacrifices

Greece's Socialist prime minister, Mr Costas Simitis, seeking re-election on September 22, said yesterday that the country must make sacrifices to stabilise its ailing economy, Reuter reports from Salonika.

Mr Simitis has been waging a tough battle against the conservative opposition leader, Mr Mitsotakis Everet, who is promising low-income voters and farmers hold increases in salaries, pensions and services after a decade of austerity.

"Yes, there are Greeks who live beyond their means, who take advantage of their position [in the public sector], who don't participate in the needed sacrifices," he said in Salonika.

He said he would rein in the "black economy", estimated at a third of gross domestic product, and restructure the public sector, where hirings will be limited.

His targets include slashing inflation by at least two percentage points next year and boosting growth so that Greece meets targets for European monetary union.

Greece is plagued by high inflation, running at 8.5 per cent year-on-year in August, and a government deficit of 9 per cent of GDP in 1996. The Emu target is for a deficit of 3 per cent of GDP and inflation about two points above the three best performing EU members.

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NEWS: INTERNATIONAL

Fallout from US strike on Iraq leaves Arabs counting the cost

By Roush Khalaf in London

Both Iraqi President Saddam Hussein and US President Bill Clinton can claim victory from last week's turmoil in Iraq. Iraq's Arab neighbours, however, have been counting their losses.

Foreign ministers from the Gulf states, main regional allies of the US, met in Riyadh at the weekend and supported the US extension of the no-fly zone over Iraq from the 32nd to the 33rd parallel. But their statements omitted any mention of last week's US missile attacks on southern Iraq in retaliation for Mr Saddam's incursion into the Kurdish north.

The reaction is not surprising. Seen from the Arab world, Mr Saddam's push to assist one Kurdish faction, the Kurdistan Democratic Party (KDP), to recapture territory in northern Iraq presented problems which had no easy solution. But as Mr Saddam was moving within his own territory and at the invitation of the Kurds the US retaliation was bound to produce unpleasant results.



KDP fighters aboard a truck are driven through Arbil yesterday

First among these is the perceived involvement by both Iran and Turkey in Iraq and the possible threat to the country's sovereignty. The Iranian regime is seen as the most serious threat to Gulf stability and has been accused of fomenting unrest

in Bahrain. Yesterday the Gulf Co-operation Council, grouping Saudi Arabia, the United Arab Emirates, Bahrain, Oman, Kuwait and Qatar - called on "some neighbouring countries" to "immediately and completely" halt all interference in northern Iraq.

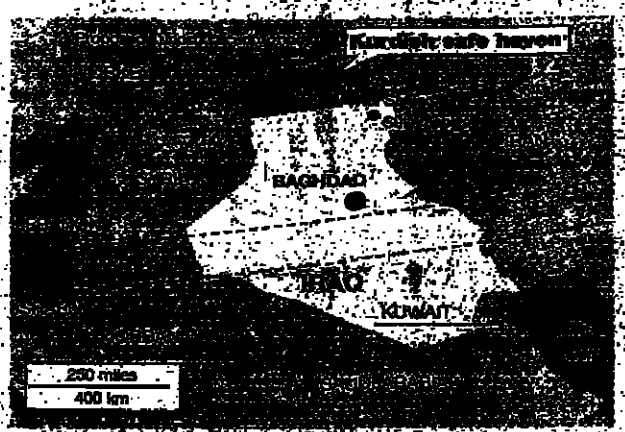
Arab states have always emphasised Iraq's territorial integrity and, like Turkey, they fear that the disintegration of the country into Kurdish, Shia and Sunni parts would only bolster their own minorities. But by punishing Mr Saddam, the US was indirectly

assisting the pro-Iraqi Patriotic Union of Kurdistan (PUK). The Kurdish party has hinted that they may openly seek Iranian assistance if the US response proves insufficient. This is increasing Iran's influence among a section of Iraq's Kurds.

Meanwhile, Turkey has announced it is setting up a buffer zone inside Iraq to deter attacks by the Kurdish rebels who have been active in the north since 1991. Syria, whose relations with Turkey are strained by water disputes and a Turkish-Israeli defence accord, yesterday hit out at Turkey, warning that the move threatens the region's stability.

Second, as a senior Arab official put it, the US strikes on southern Iraq were "counterproductive" and do not change the fact that Mr Saddam has reassured his influence in the north.

Even more worrying to Arab governments is that US attacks have boosted Mr Saddam's popularity among Arabs. "The attacks can



strengthen Saddam in his own country and in the Arab world," said a Jordanian official. This is a "development" Arab governments have been watching. And as Mr Saddam's popularity has risen, that of the US has tumbled, an outcome likely to be exploited by Islamist militants opposed to Arab regimes. This is especially true in Saudi Arabia, where the ruling Al Sauds have been attacked for their pro-US policies and for allowing on Saudi soil some 5,000 US troops enforcing the southern no-fly zone over Iraq.

Already viewed with increasing suspicion for its Israeli policies and its failure to condemn last April's 17-day Israeli bombardment of Lebanon, the US has been the target of two bomb

attacks in Saudi Arabia in the last year. In the most recent, a bomb on a US complex in Dhahran in June left 19 Saudi citizens dead and 100 injured. And as Mr Saddam's popularity has risen, that of the US has tumbled, an outcome likely to be exploited by Islamist militants opposed to Arab regimes.

For Jordan, the political consequences of the events in Iraq are exacerbated by economic frustrations. Despite recent Jordanian-Iraqi tensions, Jordanian businessmen had been expecting the end of the Gulf crisis to bring a revival of trade and generate business as the Jordanian port of Aqaba, which handled 70 per cent of Iraq's shipments before the Gulf war,

Envoys confirm massacre

By John Burt Foster in Ankara

Western diplomats and Iraqi opposition members have confirmed reports that a unit of Iraq's Republican Guard massacred about 100 members of the Iraqi National Congress opposition group 10 days ago when a combined Kurdish and Iraqi force captured the city of Arbil.

An INC member captured by guerrillas of the Kurdistan Democratic Party (KDP) said Iraqi soldiers overran an INC camp near the town of Qashteppe close to Arbil and took 96 INC guerrillas prisoner. Some were sent to Baghdad for questioning, he said. Others were shot in the desert where their bodies were buried. However, he said Iraqi troops remained in the region, preventing access by INC or journalists.

Reports that Republican Guards killed 96 INC members began circulating within hours of the fall of Arbil on August 31. However, diplomats say they have now been able to piece together what happened. A Republican Guard unit was sent to take Qashteppe, where some 140 INC members were based. They tried to hold off the attack but were quickly overrun.

The diplomat said 32 guerrillas managed to escape and 12 still remain unaccounted for but that "about 100 INC were killed in cold blood". Mr Fadi Mirani, a top KDP official last week denied that any massacre had taken place. He said: "These are rumours started by the INC. I don't believe it". He challenged the INC to supply the names of those allegedly killed by the Republican guards.

The diplomat said that one of Iraq's principal motives for taking the city was to crush the INC. Arbil was its main base inside Iraq. Mr Massoud Barzani, leader of the KDP, last week promised he would not hand over INC prisoners being held in his headquarters in Salahuddin.

Doubts in Europe and Mideast over White House policy contrast with calls in US for tough action

Clinton should have hit Saddam harder, say critics

By Patti Waldmeir in Washington

In Europe, the justification for last week's American attacks on Iraq continues to be called into question. In the US, meanwhile, voices are raised only to ask whether Washington should have done more, not less.

President's Bill Clinton's decision last week to launch cruise missiles against Iraqi air defences in the south, and to extend the southern no-fly zone to the outskirts of Baghdad, has gained wide approval from the public. But much criticism from commentators.

Many argue the action will have made only a small contribution to the longer-term problem of how to deal with President Saddam Hussein.

Many US commentators believe the action did more to highlight American limitations, than to demonstrate strength. "The loudest message to Saddam was that we did not respond with human beings," said Mr Dov Zakheim, a former US deputy under-secretary for defence, who argued that the use of only unmanned cruise missiles demonstrated to the Iraqi leader that the US was "not ready to spill an ounce of blood" against him.

The refusal by Turkey and Saudi Arabia to provide military facilities for the raid, and the public disaffection of the French, also served to highlight constraints on Washington, which cannot count on support from its former Gulf war allies for further action against Baghdad.

Mr Richard Perle, former US assistant defence secretary, summed up the case against the administration in a television interview. Mr Saddam had paid

American officials argue that they have humiliated the Iraqi leader and weakened his position significantly

little for his actions: "He was able to strike and make a tactical withdrawal and get away with it." Mr Perle said. "It's a little like saying that someone who robs a bank has failed because he withdraws from the bank, even though he has got the cash."

US officials reject this line of argument: they do not even pre-

tend that the Kurds, and Mr Saddam's humanitarian outrages against them, are their central concern. America's fundamental strategic interest in Iraq, accord-

ing to a state department spokesman, was "to deter Saddam from attacking his neighbours who, not coincidentally, have a lot of oil". Those neighbours are to the south of Iraq, so Washington needed to act against Mr Saddam in the south to protect its interests.

American officials argue they have humiliated the Iraqi leader, and significantly weakened him. Critics counter that, by asserting his influence over an area of the north which was supposed to be under western protection, Mr Saddam has actually strengthened his image in the eyes of his own supporters. Some argue that dramatic US action, perhaps against the Republican guard units which are his power base, would be necessary to weaken his hold on power.

Administration officials dismiss such calls as unrealistic, arguing that the cost of removing Mr Saddam from power would be far greater in political terms and in bloodshed than any president could be expected to pay. They do not need to add that no incumbent president need risk such a move two months before an election in which foreign policy will

probably play little role.

"There is zero reason to think the rest of the world will support a standing-start attack on Saddam Hussein," said one State Department official. "Beating up on the Kurds would be no pretext."

So for the moment, the administration seems content to stick to its policy of trying to keep Mr Saddam cornered and quiet in Iraq.

"Containment has worked. Containment remains our policy," said an administration spokesman, noting that the cost of a dramatically tougher policy would simply be too great. "If we get rid of Saddam Hussein, there is no guarantee things would get better," another official pointed out. "Do we want a made-in-the-USA label on that mess?"

Hizbollah may win four seats in parliament

By Roush Khalaf

Lebanon's Hizbollah, the country's last remaining militia, was vying for four parliamentary seats yesterday as the fourth round of general elections got under way in south Lebanon.

A main feature of the first three rounds held on previous Sundays in Mount Lebanon, northern Lebanon and Beirut has been a concerted effort by the Lebanese government to marginalise the pro-Iranian Shia party.

Hizbollah, born as a response to Israel's 1982 invasion of Lebanon, acts as

a resistance movement to continued Israeli occupation of a strip in south Lebanon. While its militia is used by Damascus, the main power broker in Lebanon, to put pressure on Tel Aviv, Hizbollah has also carved a role in Lebanon's political scene. In the 1992 parliamentary elections, it won eight seats.

In spite of a boost in popularity after April's 17-day bombardment of south Lebanon, two Hizbollah candidates lost in earlier voting rounds. Hizbollah has accused the Lebanese government of rigging the poll.

The attempt to cut Hizbollah down to size has been led by the prime minister, Mr Rafiq Hariri, who has emerged as a main winner in these elections. His coalition won 13 out of a total of 19 seats in Beirut last Sunday.

In south Lebanon, 562,000 voters are today choosing 23 deputies for the 120-member chamber. In a deal brokered by Syria, Hizbollah is running in a coalition with its main Shia rival, the pro-Syrian Amal movement, in all of south Lebanon except the city of Sidon. The move should ensure election of up to four Hizbollah candidates.

Israel and US to discuss revival of Mideast talks

By Gene Prusher in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, is to meet US President Bill Clinton today to discuss the resumption of talks with Palestinians and ways to revive the stalled Israeli-Syrian peace track.

Mr Netanyahu told reporters yesterday that Israel had some "fresh" and "logical" ideas to rejuvenate talks with Syria.

Officials said Israel had made overtures to Syria recently through diplomatic channels.

However, Syria wants assurances that Mr Netanyahu will adhere to an informal agreement expressing Israel's willingness to withdraw from the Golan Heights.

Israel captured the strategic territory from Syria in 1967, and has since expelled 16,000 of its citizens there.

Negotiations between Syria and the previous Labour government were based on the land-for-peace formula. However, Mr Netanyahu has said he rules out withdrawal from the Golan Heights.

Officials say he does not feel he needs to commit himself to unsigned understandings made by the Labour party he unseated in May.

Today's meeting in Washington will also address how to move the Israeli-Palestinian peace process forward following last week's meeting between Mr Netanyahu and Mr Yasir Arafat, the president of the Palestinian Authority.

Israeli government officials said that prior to that summit, the two sides had reached an agreement allowing them to modify some parts in their peace accords.

IMF near vote on gold sales for debt relief

By Robert Chote, Economics Editor

A proposal to sell \$2bn of the International Monetary Fund's \$40bn gold reserves to finance debt relief for poor countries could be put to a vote at the organisation's executive board as early as this week. But officials say it is not clear if it has sufficient support to be approved.

Five countries are understood to be holding out against gold sales, which need 85 per cent support in the board. These include Germany, Switzerland and Italy, which together wield 12.33 per cent of the votes. The other two opponents of gold sales - Austria and Finland -

each hold less than a fifth of the votes within their multi-country constituencies that must vote as a bloc. Austria's constituency has 5.09 per cent of votes on the board and Finland's 3.47 per cent.

If either country persuades its constituency to vote against gold sales, or to abstain, it would be enough to block the proposal.

Mr Michel Camdessus, the IMF's managing director, is understood to want to avoid an open split on the issue and he is not expected to force a vote at Wednesday's meeting unless he believes that gold sales will win the day.

The prospective line-up in the board is still not certain. Some opponents of gold sales believe that

the Finns, the Italians and perhaps even the Swiss could yet be persuaded to back them. But others believe that the Finns could be joined by other Scandinavian countries in the anti-gold sales lobby.

Opposition to gold sales has been led by Germany, which believes that they would set a bad precedent and could undermine the IMF's financial security at a time when it is lending heavily to Mexico and Russia. Like Switzerland, Germany also wants to avoid stirring up support for sales of its central bank's own gold stock for domestic reasons.

Weekend press reports suggested that a senior German official had met the heads of the IMF and

World Bank in Washington last week to urge them to drop the gold sales idea.

He was reported to have offered in exchange German support for an increase in the amount of debt relief offered by the Paris Club of creditor governments from 67 per cent (the so-called "Naples terms") to 80 per cent. This is in line with the figure proposed by the UK and the Netherlands, but still less than the 90 per cent which the IMF and World Bank would like.

The Paris Club remains a serious obstacle to the debt initiative, which is expected to cost between \$5.5bn and \$7.7bn. It has yet to say whether, and on what terms, it would contribute. Mr Christian

Noyet, the French official who heads the Paris Club, last week described the plan as bureaucratic and excessively complicated.

In a separate meeting in Paris on Friday, officials from more than 20 countries made further progress in agreeing a \$50bn credit line which the IMF could draw upon in the event of Mexico-style financial crises. But one finance ministry official said it was still not certain final details would be tied up in time for the IMF board to approve arrangements ahead of its annual meeting later this month. It is still not clear whether some countries will sign up, or exactly what institutional back-up will be provided. Bangladesh draws up case, Page 6

Brazil moves to rein in gun-linked violence

Brazil's President Fernando Henrique Cardoso sent emergency legislation to Congress on Friday aimed at restricting access to firearms amid growing concern over violent crime.

The measure, expected to be approved by the end of September, makes it harder to buy guns, increases penalties for carrying them without a licence and establishes a national firearms register to monitor ownership.

It comes less than a month after middle class residents of São Paulo were shocked by the motiveless murder of a young woman during the robbery of a bar in a

well-to-do area and follows a spate of fatal shootings in traffic arguments and of drug-related killings.

The bill's supporters hope it will help to reduce the number of murders in Brazil's cities, which averaged 23 a day in São Paulo during the first half of 1996. But its critics say it will not do enough to combat a widely tolerated gun culture.

Under current legislation, anyone who has been at work for a year and has no criminal record may buy up to three guns in each of Brazil's 27 states. Under the new law, the limit will apply nationwide,

buyers of guns will have to pass a psychological examination and the maximum penalty for illegally carrying firearms will rise from six months' imprisonment to six years. "This will have a direct impact on the homicide rate," said Congressman Roberto Jefferson, author of the bill. "People will think twice about carrying guns."

A study published last week by the University of São Paulo (USP) supports the view that incidence of gun ownership influences the murder rate. Researchers studied murders in 14 police districts and found that 90 per cent were committed

with firearms and over half for "trivial" reasons: fights in bars, over women, between drunks and in traffic.

"People are killing each other in the heat of the moment, and they couldn't do it without a gun," says Mr Guaracy Mingardi of USP's Centre for the Study of Violence.

Mr Mingardi says the number of illegal guns in circulation has increased since economic reforms introduced two years ago boosted the average Brazilian's spending power. The Brazilian lawyers' association, the OAB, reckons there are 1.2m illegal weapons in São Paulo

state, against 120,000 registered ones. An average of 1,277 illegal guns were seized in the city each month during the first half of this year.

The bill's supporters say stiffer penalties will reduce the number of guns carried by ordinary citizens and, therefore, the number stolen and used by criminals.

But Mr Jairo Fonseca of the OAB says changing the law is not enough. He advocates immediate destruction of all illegal guns seized - most now end up back on the black market - and a freeze on new gun licences. The OAB hopes to persuade the São Paulo government to

adopt its suggestions and recently launched an advertising campaign aimed at changing attitudes to gun use. "Guns are still seen as something to be proud of," says Mr Fonseca. "We have to stigmatise them."

The OAB's campaign will also argue that carrying a gun is dangerous: for every 16 people who attempt to use a gun to defend themselves from attack, it says, 15 are either killed or seriously injured.

Jonathan Wheatley

INTERNATIONAL NEWS DIGEST

Algeria parties in peace talks

The Algerian government and most legal opposition parties will hold a national conference next weekend in Algiers as a sign of reconciliation in a country plagued by more than four years of violence.

The conference marks the culmination of months of dialogue between army-backed President Liamine Zeroual and the legal opposition, during which much of the latter agreed to join Mr Zeroual's efforts to reshape Algeria's political scene. Mr Zeroual has excluded the Islamic Salvation Front, the party which won the first round of general elections in 1991, from the conference. The army's cancellation of the 1991 elections provoked a violent struggle between security forces and Islamic militants which has so far claimed more than 40,000 lives.

Also absent from the conference will be the Berber-based Socialist Forces Front, a main opposition party which walked out of the talks this summer and accuses the Algerian regime of attempting to marginalise the opposition. At the conference, parties are expected to adopt a platform set out by Mr Zeroual, and commit them to the rejection of violence and to the ban on using Islam to attain power.

Roush Khalaf, London

Uzbeks permit rights meeting

Secular and religious opposition leaders in Uzbekistan voted over the weekend in their first sanctioned public meeting in three years, emboldened by government support for the country's first human rights conference later this week. Police stayed clear of the 100 Uzbeks who gathered on Saturday in Tashkent, offering some hope that years of murder, jailing and abuse of political activists may give way to a limited level of freedom.

Delegates re-elected Mr Abdumannon Polat - who gained fame in 1992 when Uzbek secret service agents kidnapped him from neighbouring Kyrgyzstan and put him in jail - as chairman of the Human Rights Society of Uzbekistan. Mr Polat, an exile in the US, has been invited to address this week's human rights conference in Tashkent, organised by the Organisation for Co-operation and Security in Europe.

Sander Thomas, Tashkent

Uranium price 'needs to rise'

Uranium prices, which have already doubled from a very low level in the past two years, need a further "substantial" rise if producers are to be encouraged to fill a growing gap between supply and demand, delegates at a Uranium Institute symposium in London pointed out.

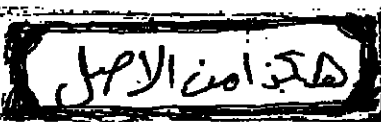
The institute's latest supply and demand survey of the global nuclear power industry's requirements today are met by uranium mines, with the rest coming from rapidly diminishing stocks. Some extra uranium mining capacity is already planned, but the survey suggests this will leave a big gap between supply and demand in the years to 2015 even with the expected contributions to supply from reprocessed fuel and Russia's military grade uranium that is being blended down for use in nuclear power stations.

Kenneth Gooding, London

Burundi sanctions eased

Officials of seven African countries have agreed to ease sanctions imposed on Burundi after the coup there, to allow humanitarian aid to reach refugees. Sources from a conference on Burundi which ended on Saturday in Arusha, Tanzania, said there was no apparent response to a plea from Burundi's military ruler, Major Pierre Buyoya, for the full lifting of sanctions imposed after the July 25 coup that brought him to power.

Reuter, Arusha





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مطبخ الامن الاجل

Beijing finds HK allies in Japan dispute

By John Fiddling
in Hong Kong

The Sino-Japanese dispute over a group of islands in the East China sea is stirring up Chinese nationalism in Hong Kong, creating a common cause between Beijing and its political opponents in the territory ahead of next year's handover of sovereignty.

Demonstrations at the weekend drew more than 1,000 protesters, and organisers said they planned to step up demands that Japan renounce claims to the Diaoyu islands (called the Senkaku by Japan) and dismantle a lighthouse built by Japanese troops.

Activists are planning to launch an expedition to the islands, about 300km to the west of Okinawa, and are pressing for a consumer boycott of Japanese goods.

Trade unionists and pro-China groups have been involved in the demonstrations, but the most striking feature has been the role played by the Democratic party, largest group in the territory's legislature and a vocal critic of Beijing's plans for Hong Kong after the transfer of sovereignty on Britain on July 1 next year.

On Friday, the Xinhua news agency in Hong Kong opened its doors to the Democrats for the first time to receive a petition urging China to oust Japan from the disputed islands. The delegation to China's de

facto embassy was led by Mr Sato Wah, a party official blacklisted by Beijing for his support of democratic activists on the mainland.

"China has been too soft in dealing with the Japanese occupation of the Diaoyu islands because it wants Japan to be involved in China's economic development," said Mr Yeung Sum, the party's deputy chairman.

The reception at Xinhua headquarters suggests Beijing is seeking to use the issue to create unity ahead of the handover. "It is a familiar tactic to use an external issue to forge unity," says one diplomat. "Japan is an obvious target because of the war and the occupation of Hong Kong."

In addition to the island expedition and a consumer boycott call, demonstrators say they are organising an all-night vigil on September 18 to mark the Japanese invasion of Manchuria.

Although small, the demonstrations reflect a seam of anti-Japanese sentiment in Hong Kong and the sensitivity of the islands issue. The protests come as China is signalling a softer line towards opponents in Hong Kong, having offered to hold talks with the Democrats.

Angry Taiwan residents formed an alliance yesterday to try to protect the Diaoyu islands from Japan and threatened mass protests over what they said was Tokyo's invasion of the islands, Reuters reports.

Sales expected to treble over 10 years as CDs become the dominant medium

Asia rises in music industry charts

By Alice Rawsthorn

Asia will be one of the music industry's fastest growing markets over the next decade with retail sales trebling from \$10.6bn last year to nearly \$33bn by 2005, according to a new study published by Music Business International (MBI).

The industry magazine highlights China, India and Pakistan as Asia's most dynamic markets. It expects healthy growth throughout the region, including more mature markets such as Japan and Hong Kong.

The dramatic increase in sales of compact discs and cassettes across Asia comes at a time when the pace of growth is expected to slacken in established music markets, including North America and Europe.

MBI expects a 48 per cent increase in global music sales from \$41.2bn in 1995 to \$61.1bn in 2001. During that period the fastest growing region will be eastern Europe, achieving even higher growth than Asia



Musicians from Asia's fast growing market: Carabao band from Thailand

with sales trebling from \$602m to \$1.6bn.

But the Asian market is so much larger, so its progress will have a greater impact on the music industry's finances. MBI forecasts a 74 per cent increase in sales for the region from 1995's

\$10.6bn to \$18.4bn in 2001.

Japan now dominates the Asian market, with sales of \$8.3bn last year compared with \$2.3bn for other countries in the region. This gap is expected to be narrowed, with Japanese sales increasing by 37 per cent to \$11.4bn

by 2001, and other Asian sales rising threefold to \$7.1bn.

The chief catalysts for the market's growth will be general economic expansion, clampdowns on piracy and a switch from cheap cassettes to more expensive CDs.

By far the most dramatic growth is likely to be in China, where MBI expects sales to escalate from \$310m last year to \$2.2bn by 2001, when China will have become the world's sixth largest music market. Indian sales are forecast to leap from \$27m to \$1.3bn over the same period.

MBI expects the "big five" companies that already dominate the global music market - PolyGram of the Netherlands, Japan's Sony, Warner of the US, the UK's EMI and Germany's Bertelsmann - to become the largest forces in Asia.

So far there is no sign that western stars will reap all the benefits. Local musical genres such as "Mandopop" and "Cantopop" command wide popularity, as do Asian stars, notably Jacky Cheung, the Hong Kong singer signed to PolyGram, and Teeth, a Philippines act on Warner.

The MBI Asian Report is published by MTL, 7 Archway Business Centre, Wedmore Street, London N19 4RU. £395.

Inter-Continental gains four hotels in Malaysia

By Scheherazade Daneshkhu,
Leisure Industries Correspondent

Inter-Continental Hotels and Resorts is to announce today a joint venture agreement with Federal Hotels International, the hotel management arm of Low Yat, the Kuala Lumpur-based conglomerate, which will give it four hotels in Malaysia, where it had none before.

Joint ventures are playing an increasingly important part in the race by hotel management compa-

nies to expand globally. Companies are ready to sacrifice part of their management fees and outright control of the hotel operation in order to secure a foothold in new markets.

Last month, IIT Sheraton formed a joint venture in Israel with Koor Hotels and Resorts, part of Koor Tourism Enterprises, the publicly quoted group. Under the agreement, the five hotels managed by Koor in Israel are being rebranded as Sheraton or Four Points Hotels, its mid-market brand.

Inter-Continental, which had two joint venture agreements in Mexico and South Africa, last week secured a third in China with Dynasty, a privately owned Hong Kong-based hotel development company.

The agreement increases its presence in China rapidly, giving it four hotels in Beijing, Chengdu, Qingdao and Xian in addition to the hotel it already operates in Shenzhen. A sixth hotel at Harbin is due to open next year. Inter-Continental aims to have 25 hotels in China by 2010.

The group is also in the final stages of negotiating a joint venture in Indonesia.

Mr Gavin Simonds, joint managing-director of Inter-Continental said: "We recognise that you cannot manage the world from one centre. Joint ventures combine local knowledge with global reach."

Saison Group, the Japanese retail consortium which owns Inter-Continental, is expected to float the hotel chain in London or New York within the next 18 months.

OECD optimism in South Korea

By John Burton in Seoul

South Korea is optimistic it will enter the Organisation for Economic Co-operation and Development this year after the Paris-based group gave cautious approval to Seoul's financial liberalisation programme.

The US and several European countries had threatened to block Korea's OECD application unless it opened its capital markets wider. But two OECD panels, which had been examining Korea's financial liberalisation measures, gave a "tentative and reluctant" endorsement to them on Friday.

The committee's approval had been uncertain, with Mr Christian Schricke, the senior OECD legal counsel, telling officials in Seoul last week that most OECD members regarded Korea's financial liberalisation plan as unsatisfactory.

The OECD's governing board is expected to make a final decision on Korea's membership on September 28 after reviewing committee reports on capital markets, trade, labour, the environment and other criteria.

The half-hearted recommendation offered by the OECD committees on capital movement and investment liberalisation, however, suggests Korea might still be pressed to offer a firm deadline for the complete removal of all capital controls before its application is accepted.

Korea wants the speed of deregulation to be determined by economic preconditions that could take years to achieve.

Seoul said it would not accept the complete opening of its bond market and the liberalisation of capital flows until the gap between high domestic interest rates and low foreign ones narrowed to 2 percentage points from its present 6.7 points.

The Korean position has raised suspicions among OECD members about whether Seoul is willing and able to assume its obligations as a member of the club of advanced industrial nations. Nonetheless, the committee approval of the financial liberalisation plan might indicate the OECD has decided to accept Korea for political reasons, even though it has not met all OECD requirements.

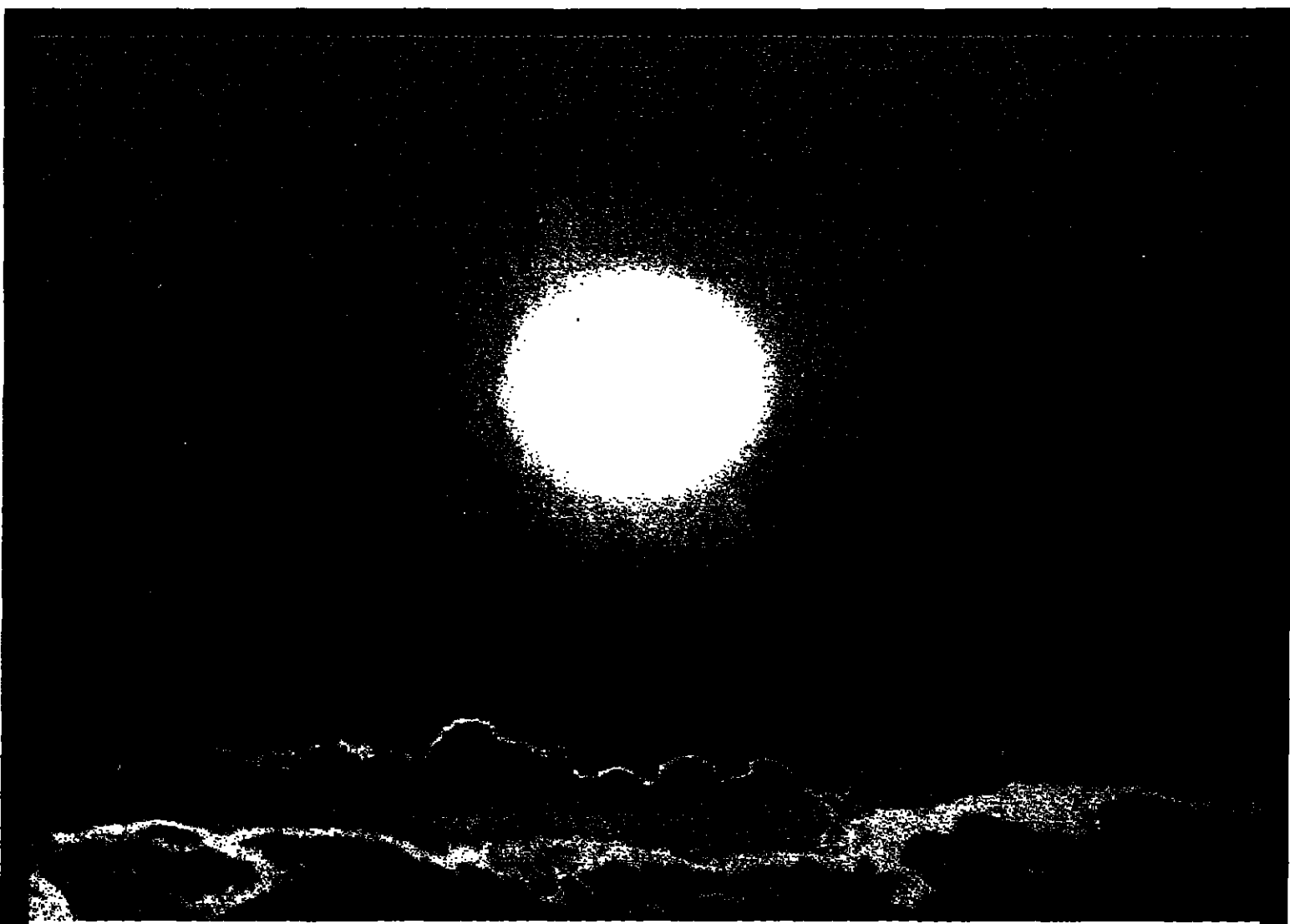
Seoul has argued it should be allowed into the OECD because it is the world's 11th largest economy. Its presence as the second east Asian nation in the group, after Japan, would also correct the OECD's heavy Eurocentric orientation.

Korean officials have also recently warned the OECD that Seoul would probably withdraw its application if any more demands were made because of growing domestic political opposition to membership.

"If we are forced to withdraw our application or were rejected, we would lose our taste for (the OECD) and probably not try to apply again," said one senior government official. But if "Korea is allowed entry into the OECD, it would guarantee that we would proceed with economic reforms through peer pressure. This is not the end of the reform process, but only the beginning."

The government fears that any new concessions given to the OECD would jeopardise ratification of the OECD agreement in the national assembly, where the ruling party holds only a three-seat majority.

The two main opposition parties and most of the Korean media have criticised OECD membership as likely to exacerbate the country's growing economic problems.



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ASIA-PACIFIC NEWS DIGEST

Mahathir hits at Singapore

Dr Mahathir Mohamad, Malaysia's prime minister, has accused Singapore of insincerity and racial discrimination, in his strongest criticism of the southern neighbour since he became Malaysia's leader 15 years ago. He said at the weekend that statements by Singapore leaders on the possibility of reuniting with Malaysia had offended the United Malays National Organisation (UMNO), the dominant party in Malaysia's ruling coalition.

He was referring to comments by Mr Lee Kuan Yew, Singapore's former prime minister and now senior minister. He said in June the city state could rejoin Malaysia, but only if Kuala Lumpur dropped policies of affirmative action for certain races and became a meritocracy. Singapore was part of Malaysia from 1963 until it was expelled in 1965.

The prime minister also took issue with remarks by his Singaporean counterpart, Mr Goh Chok Tong, who warned last month that Singapore could be forced to ask Kuala Lumpur to take it back if its economy faltered. "We are offended by their recent statements, which are insincere. They are using us as the bogeyman to scare Singaporeans," Dr Mahathir was quoted as saying in local newspapers.

HK judge may drop title

Hong Kong's chief justice may relinquish his British knighthood as well as his judicial post to help his campaign to become chief executive of the territory after its handover to China on July 1 next year, the South China Morning Post said yesterday.

Sir Ti Liang Yang, who entered what had been regarded as a one-horse race against Ms Anson Chan, head of the civil service, last week, also told Hong Kong reporters in London he had no regrets about giving up his British passport - a precondition for the job. He said he was checking whether he needed to drop his knighthood, awarded in 1988.

Foreigners' pay rises hit

Hong Kong's best paid expatriates are seeing rises in their pay packages trimmed, according to the South China Morning Post. A sluggish economy and a drive to recruit local executives had created a more difficult expatriate jobs market, it said, quoting a study by QS Associates.

The survey of 223 leading companies in the territory found average packages for middle to top management over the past year rose 6.5 per cent, compared with the 1994-95 jump of 15.1 per cent.

China flood claims forecast

China's big insurer, the People's Insurance Group, expects to pay out Yn3.2bn (\$386m) in damage claims for widespread flooding this summer, the Business Weekly said yesterday. People's Insurance had already paid out Yn500m in claims by August 20 and the extent of the damage was still being tallied, the newspaper quoted a company official as saying. Flooding had killed at least 2,700 people this year.

Bangladesh draws up its case for an increase in aid

By Kears Naji in Dhaka

The government of Bangladesh will spell out the details of its economic policies today at the annual meeting of foreign donors in Paris. Foreign aid amounts to about \$1.5bn each year - almost one quarter of the country's total annual foreign exchange receipts.

Mr Shah Kibria, finance minister, will appeal to senior officials from the World Bank, the IMF, various United Nations bodies and aid agencies for \$2bn for

the 1996-97 financial year. The government says it needs the help to complement its efforts to alleviate poverty and encourage growth. But to get that sum, Mr Kibria will have to convince donors at Paris the government is working to reduce its aid reliance when there is stiff competition for donor funds from republics of the former Soviet Union and eastern Europe.

Mr Kibria only became finance minister in June when the Awami League secured a strong majority in

the general elections after 21 years in opposition. He will have to show commitment to a range of long-overdue reforms to streamline the government, shrink the budget deficit, privatise loss-making state enterprises, open the economy to private sector participation and attract investment.

The government appears to recognise the need for many of the reforms urged by the World Bank. But a question mark hangs over the speed with which it will carry them out.

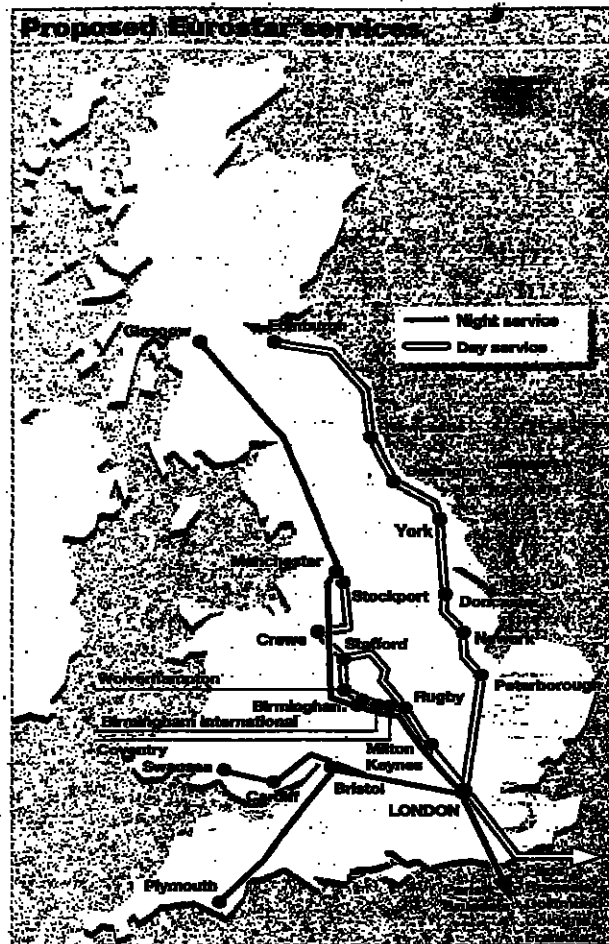
مكتبة الامم المتحدة

Power demands may bring overnight Channel tunnel trains to a halt

Doubt cast on plan for Eurostar sleeper

By Charles Batchelor, Transport Correspondent
Plans for overnight sleeper trains through the Channel tunnel are being reviewed because of technical problems. The heavy power usage of the new sleeper trains, dubbed "hotels on wheels", could place heavy demands on the ageing equipment on the west coast mainline from London to Birmingham and Glasgow.

would not be feasible to operate sleepers only on non-electrified lines to Wales and the west country. The idea is to run separate trains from the north and west to London, and link them up for the rest of the journey. The start of daytime services from the north of England, the Midlands and the west country has already been held up by problems in making sure electrical systems on the powerful Eurostar high-speed trains are compatible with the older equipment north of London.



City People, Page 30

Battle for 'real Lloyd's' hots up

By Ralph Atkins, Insurance Correspondent

Senior figures at Lloyd's of London will this week seek backing for a new investment fund aimed at ensuring the 300-year-old insurance market's traditional strengths are not jeopardised by recent takeover activity by overseas investors.

Mr John Stace, a Lloyd's deputy chairman, described the initiative as "a campaign for real Lloyd's", to rehabilitate some of the skills and entrepreneurial flair that made Lloyd's the market it was. The fund could seek to raise up to £100m (£150m).

The latest moves highlight the battle between those who want to preserve the Lloyd's traditions of capital flexibility and constant regeneration, and others - such as Mr John Charman, a Lloyd's deputy - who believe policyholders want to deal with large underwriting vehicles backed by permanent, limited liability investors. The "real Lloyd's" campaign would allow investors to trade with limited liability and would try to build a partnership between capital providers and managing agencies.

Union leader foresees strike-free future

By Robert Taylor, Employment Editor

A senior trade union leader last night called for unions to move towards binding arbitration to resolve industrial conflicts as an alternative to strikes. On the eve of the annual conference of the Trades Union Congress in Blackpool in the north of England, Mr Ken Jackson, general secretary of the AEUU engineering union, said unions "could avoid strikes to history."

Trade unions are popular and a substantial majority of voters back new employment rights, according to an NOP poll commissioned by the Trades Union Congress. The TUC said the degree of fear attached to the work-place was shown by the 94 per cent who agreed: "If I lost my job it would be very difficult to find a new one that was as good."

The survey found that most people at work (57 per cent) were more insecure than two years ago and 56 per cent expected their work to become even more insecure. They felt under intense pressure, with 67 per cent saying they did the work which was done by two people 10 years ago.

But he called on the TUC to offer binding arbitration as part of a voluntary compact with a Labour government in return for the introduction of a national minimum wage, signing the social chapter and legal rights of representation and recognition for unions. He said he envisaged the setting up of small, fast-track arbitration appeal units to which employers and employees would present their case with the decisions reached being binding on both sides.

Units to which employers and employees would present their case with the decisions reached being binding on both sides. Union leaders reacted cautiously to Mr Jackson's proposal. Mr Bill Morris, general secretary of the TGWU general union, said a "new industrial relations settlement" would be needed. But he added: "No employer is prepared to hand over any decision to a third party which does not have ultimate responsibility for its implementation."

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Table with columns for US\$ par, purchase price, and other financial data. Includes sub-sections for 'Prices for securities purchased for the purposes of the secondary market' and 'Prices for securities purchased for the purposes of the primary market'.

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BOARD MEETINGS: Associated British Ports, Baxi & Wallace, British-German, Chrysler Intl, Costa Voylla, Crompton (Ireland), Cusackover Intl, Dairco, Egan Intl, Gearing Intl, Independent News, Interm, Kingfisher, Kvaerner Smelter Gas Inv Ltd, London Forfeiting, Pender Oil, Prudential Corporation, PFS, S&P Plus, Telagony, Trinity Intl...

LEGAL NOTICES
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BIRMINGHAM AND THE WEST MIDLANDS

Upturn in private investment

One of the region's key strengths is its ability to unite both private and public sectors to champion its cause, writes Richard Wolfe, Midlands correspondent

To outsiders, the furrow between Birmingham and London over hosting the Millennium Exhibition may have seemed little more than a petty episode of regional rivalry. But few recent events have highlighted so vividly where the West Midlands stands within the UK. Even fewer have raised passions so high within the region.

To business and political leaders in the West Midlands, the bid to host the nation's celebrations of the year 2000 was a sign of the region's economic strength, as well as its local pride.

Where its London rival appeared reluctant to stage the event, Birmingham was only too keen to enter the spotlight. Where London lacked funding, Birmingham had already arranged its finance and calculated the long-term commercial gain for its proposed host, the National Exhibition Centre.

The Millennium Commission's eventual rejection of Birmingham reinforced the region's suspicion that it has always suffered from an anti-Midlands prejudice in the capital. However, the bid also underlined one of its key strengths - the ability to unite both the private and public sectors to champion its own cause.

It is this strength which has led to the current regeneration of Birmingham city centre. Blighted by the drab concrete developments of the 1960s, the heart of the region suffered years of neglect before the council invested in improving the streets and

squares on its own doorstep, and in building the popular International Convention Centre, (ICC).

The result has been a significant upturn in private investment in the city centre this year. Hammerson, one of the UK's largest property companies, plans to spend £350m (£307.5m) revitalising the Bull Ring after buying the huge shopping centre for £30m earlier. The project will do more than lift the city's retailing image. It will also rebuild part of the city's inner ring road, breaking Birmingham's infamous "concrete collar" which drives pedestrians through hostile suburbs and constricts its shopping areas.

Ironically, one of the city's key investment projects also relies on Millennium Commission funds. Millennium Point is a classic West Midlands partnership between the council and a consortium of local businesses to build a £130m high-tech exhibition centre.

Backed by substantial European funds, the futuristic centre is intended to showcase science, manufacturing and the achievements of the region since the industrial revolution.

Unlike the failed exhibition bid, the project seems likely to win £50m of Lottery funds. As with the ICC, the private sector is expected to invest around the landmark buildings and so regenerate a largely derelict quarter of the city centre.

Birmingham's millennial confidence is directly linked to the West Midlands' eco-

omic recovery over recent years. While doom-mongers predicted the terminal decline of its manufacturing during the 1980s, the region is now heading towards the next century with renewed belief in its traditional industries.

The automotive industry, which dominates the region's manufacturing output, has been boosted by inward investment from BMW into Rover and Land Rover, and by Ford's £400m project to build the new Jaguar saloon in Birmingham. Companies such as the van-maker LDV - formerly Leyland Daf - have recovered from financial collapse and begun to focus on international markets.

However, in the short-term, at least, the region's economic performance seems to be more mixed. While the West Midlands outpaced the UK in 1995 with a 2.9 per cent growth in output, this year the region's manufacturing output has slowed and in some sectors stagnated.

According to forecasts from Business Strategies Limited, the region's growth is expected to fall to 1.5 per cent, compared to a national average of 2.1 per cent. On the one hand, engineering is likely to expand, and Birmingham council's economists forecast that the region's motor industry could grow by up to 6 per cent a year over the next decade.

In contrast, Business Strategies says the region's traditional metals, minerals



Brindleyplace, Birmingham, is the largest city centre development under construction in Britain. Also pictured, top left, is Rover Group's advanced car assembly line

and chemicals sectors are set to contract. Such caution is reflected by surveys from Birmingham chamber of commerce, which indicates that 45 per cent of the city's manufacturers feel their turnover is likely to remain static over the next 12 months.

The picture is less comforting in the region's job market, where the relative strength of manufacturers is proving to have little direct impact on employment levels.

Although the West Midlands is close to the national average with an unemployment rate of around 7.5 per cent, the prospects for manufacturing jobs seem poor. Manufacturing employment is expected to fall by 2,000 in the third quarter of this year. Instead, job creation seems likely to come from

the tourism and leisure sectors.

John Beverly, the Bank of England's agent and chief representative in the Midlands, says: "Many of the region's manufacturers have significant investment programmes now in order to face up to international competition. But in many cases the investment is designed to make more productive use of the labour they have got, or to reduce it. The number of firms likely to be recruiting large numbers of people is therefore very limited."

"In the services sector, there is also likely to be more rationalisation in banking and insurance. But, in contrast, areas such as themed pubs and restaurants are doing extremely well - even when people are not feeling terribly well-off they are spending in these

sectors. A lot of these have significant investment programmes, and tourism is becoming quite a significant part of the regional economy."

One of the few rays of hope for new jobs is Birmingham airport, which won a hard-fought planning battle with Solihull councillors over a £400m expansion strategy earlier this year. The expansion, which will double the airport's capacity over 10 years, is forecast to create up to 7,000 jobs. Such structural changes in the regional economy are a priority for the business and political leaders of the West Midlands. Most are keen for the region to diversify away from manufacturing - which still accounts for 30 per cent of its output and 22 per cent of

employment. Moreover, the bias towards older industries is seen as something of a hindrance to the region's progress. The lack of newer, high-value industries - such as electronics and biotechnology - was identified as a key weakness in a study of the competitiveness of the West Midlands, published by the Department of Trade and Industry this summer.

The result is a level of productivity which lags every region within the UK except Northern Ireland. The region's industry is also dogged by a poor record on innovation and investment.

But for David Botterill, chief executive of the Engineering Employers' Federation in the West Midlands, such criticism should not be seen as a depressing view of the region's prospects.

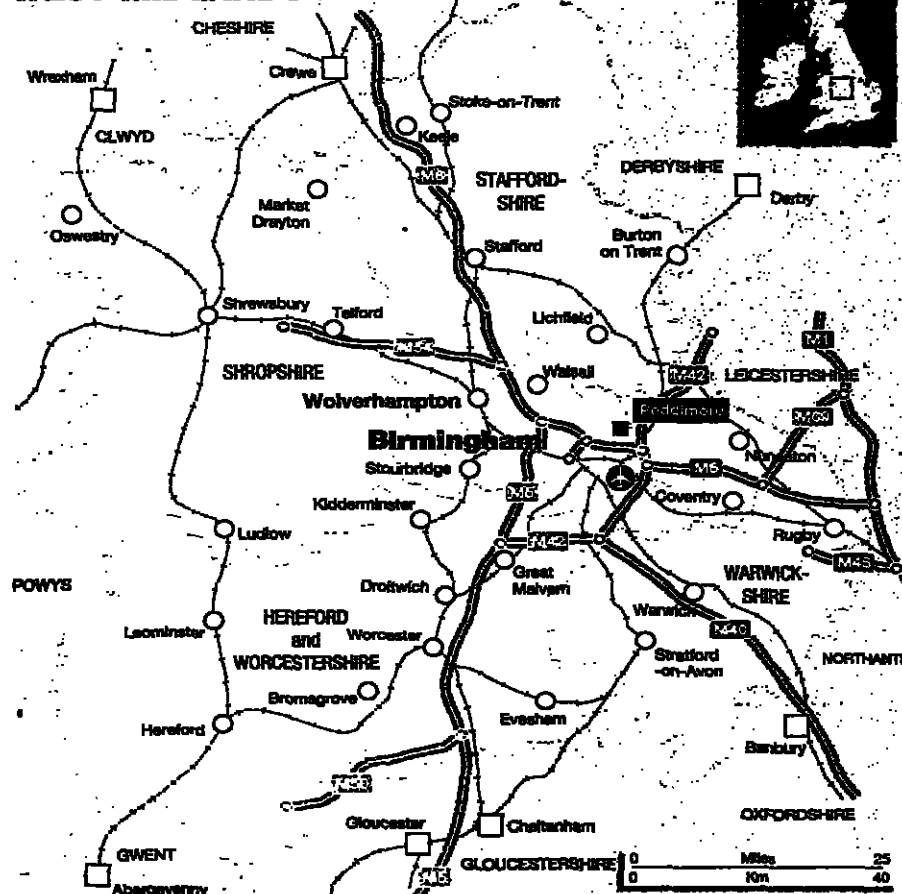
"It is true that there is a

significant number of under-performing companies in manufacturing, but that is a reflection of the region's heritage as well as a consequence of a radically changing situation," he says.

"Here the process of change has perhaps been less stark than other regions, but rather longer drawn out. We have not gone through the terrible traumas of south Wales, with the demise of steel and coal, or the Clyde with the loss of shipbuilding.

"The important thing is to see how many good companies are coming through, and how we have a better balance and a better spread of manufacturing than most others. There is going to be continuing change over the next decade but, on balance, I think we will come out rather better than worse."

WEST MIDLANDS



Scope for inward investment: Pedditors, a new 66-hectare greenfield site north of Birmingham, aims to attract 'flagship' high technology projects: see report on Page 3 of this survey

Automotive industry • By Richard Wolfe

Proven international strength

The region's car producers have fought off tough competition from Detroit

As the centenary year comes to the end of the road, the West Midlands automotive industry has good reason to feel confident about its immediate future.

After decades when gradual decline seemed the only prospect, the leading motor manufacturers, as well as thousands of suppliers, are preparing for substantial growth into the new millennium. According to Birmingham Council's economists, the region's motor industry has the potential to grow by 6 per cent a year over the next decade.

David Fletcher, head of the automotive group at Deloitte and Touche accountants in Birmingham, says: "The region has evolved into something that is now attractive to overseas investors in terms of the critical mass that is here. The skills that are now available - in terms of both cost and qual-

ity - have led to a lot of import substitution."

The biggest single recognition of this international strength was Jaguar's confirmation in March that it would build its new X200 saloon at its Castle Bromwich plant in Birmingham. Jaguar's decision was a hard-fought triumph for the region, which beat stiff competition from another Ford-owned plant in Detroit.

The £400m project, backed by £80m of government and European aid, is likely to create 1,300 jobs and safeguard another 3,000 at Jaguar alone. Among suppliers, it is predicted that around 5,000 jobs will be created.

Jaguar's confidence is matched by home-grown companies, such as LDV, the Birmingham-based van-maker, which has experienced a remarkable turnaround over the last three years. When its predecessor Leyland-Daf collapsed in 1993, the new company was written off by experts, who said it was heading for bankruptcy.

In reality LDV's financial record could hardly have been more different. In its first year pre-tax profits

stood at £7.05m on sales of £63.7m. By last year, profits had risen to £23.3m on sales of £216m.

The company, now privately owned, is looking for international partners to develop new vehicles and global markets. Although production has doubled in three years to 400 vans a week, LDV is still a small player in the van market with almost all its sales in the UK. Agreements have already been signed with Andoria in Poland and AAD in South Africa, but LDV is keen to find a presence in the Far East.

At Rover itself, the scale of investment is the most impressive sign of the long-term confidence of its owners, BMW. The Longbridge plant in Birmingham has a new £43m paint shop, while Land Rover in Solihull is now constructing a huge £90m paint shop - billed as the largest new building outside London.

Rover's strategy is to move away towards niche cars. Ian Strachan, director of corporate communications, says: "We do not see

ourselves as volume car manufacturers now. Although we are the biggest producer in the UK, our cars are more specialist."

That strategy means mixed news for Rover's operations in Longbridge which launched no less than three new models last year. Longbridge, which started life 50 years ago, builds the exclusive MGF sports car as well as the classic Mini - set to become a range in its own right. But it also makes Rover's only remaining mass market car - the 100, previously known as the Metro - whose future is in doubt.

However, BMW's biggest investment is yet to come. BMW and Rover are working on a new engine strategy, as the company believes it will lack capacity into the next century. While BMW's current operations in Germany and Austria are strong contenders for the new engine plant, Rover says it is also looking at the former power station site at Hams Hall, near Birmingham - now a distribution park with a Channel Tunnel freight terminal.

Meanwhile, in Coventry, Peugeot's Ryton plant is still

waiting to learn of its fate from its French owners. Coventry now produces just the 306 model even though it is in principle a two-model plant - when the 306 was launched in 1993, the 405 was also built alongside.

Peugeot says it has yet to make a definitive decision on whether there will be a second model, but it says the project is "under serious discussion". Such discussions are not helped by this summer's industrial dispute over linking the UK plant's holidays to French holidays.

Across Birmingham and the West Midlands, such rapid changes among the car companies are multiplied through the hundreds of large and small suppliers in the region.

Rover alone has cut its supplier-base from around 2,000 five years ago to less than 500 today - a process mirrored across the industry, and one that is set to continue over the next five years.

Such structural changes have led to a quickened pace in corporate deals between suppliers, as well as rapidly

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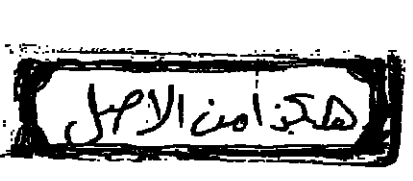
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2 BIRMINGHAM AND THE WEST MIDLANDS

Standards in regional manufacturing • By Richard Wolfe

Victim of its own success

Smaller industrial companies have not kept pace with those of other regions

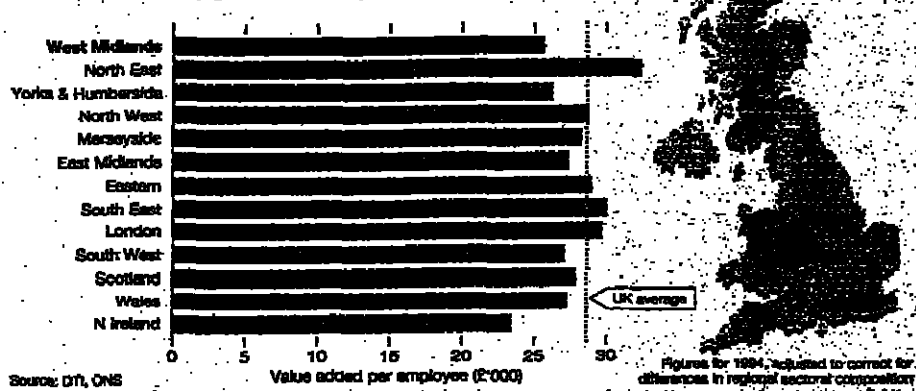
For West Midlands manufacturers, a government-backed report on the region makes stark reading. According to the department of trade and industry - which published its study of competitiveness in July - the region's manufacturing sector suffers from relatively poor levels of productivity, innovation and investment.

Although the West Midlands represents around 8.4 per cent of the UK's output, it lags behind every other region except Northern Ireland, when measured by the value added by each employee to the production process.

For those leading the sector, the report highlighted an issue which has dogged their operations in recent years. Many larger manufacturers have rapidly reviewed their production processes and management structures - mainly led by the example of Japanese investors, and by the desire to find new export markets. But their smaller suppliers - and there are an estimated 40,000 small manufacturing companies in the region - have yet to respond to such changes.

The West Midlands appears partly to be a victim of its own manufacturing success. According to Tony Bradley, policy director at Birmingham Chamber of Commerce, the region has reacted more slowly to manufacturing changes because

Manufacturing productivity by region



it did not suffer the dramatic industrial decline of such regions as the North East or South Wales.

"It was almost four years after the recession at the beginning of the 1990s that the changes hit this region, so we did not start responding until other regions were emerging from recession.

"Companies such as Rover have changed their production methods significantly and gone to their major suppliers to help them do the same. But it is a slow process further down the supply chain and it has not yet reached the lower tiers, although there are good examples emerging there now."

Two projects have recently set out to speed up that process of lifting standards among the smaller manufacturers in the region.

By far the largest is the £28m World Class Supplier programme aimed at around 900 small and medium-sized companies in the West Midlands motor industry. Backed by about £12m of

European grant aid, the project was launched in June with the stated aim of raising standards of quality to meet those in Japan, the US, France and Spain.

Led by Birmingham's Training and Enterprise Council (Tec), the project is intended to spread best practice and improve collaboration through the supply chain. Its main methods are to benchmark companies against international standards, and identify areas of under-performance. Both methods should point to specific measures to improve standards.

With the involvement of the major vehicle companies such as Jaguar, Rover and LDV - as well as the largest suppliers, such as GKN and Lucas - the project offers suppliers a £10,000 credit for help in such areas as tooling, design and delivery.

A smaller scale project, led by the private sector, aims to do a similar job among the wider manufacturing sector by improving the work of such bodies as the region's Tec and Business Links.

The West Midlands Manufacturing Challenge also aims to lift standards by sharing experiences between large manufacturers and smaller companies. The Challenge - led by Rover and Wagon Industrial, the engineering group - studies two measures of a company's performance - the productivity of each employee and the ratio of working capital to sales.

John Hudson, of Wagon Industrial, says: "Many of the techniques used by older companies are out-dated and this is a considerable frustration to people such as Rover and Wagon. When we want to sub-contract business, for instance, it's not easy to find competitive companies."

"The result is that we in the region have a good chance of winning trade from places such as Ger-

many, because our wages are comparatively low, but this is offset by our low productivity.

"All we want to do is to try and help sort out the productivity of smaller companies by re-positioning the Business Links and Tec, which lack manufacturing specialists."

"It is a question of demonstrating best practice and spreading the word."

General engineering • By Richard Wolfe

Frustrations for exporters

Many producers aim to diversify away from traditional metal-based manufacturing

It has been a frustrating year for many of the region's general engineering companies. Hopes of sustained growth have been toned down as home orders have flattened and European export markets have failed to shine.

However, contrary to the rather bleak picture painted by national statistics, the region's engineers report a mixed bag of sectoral strengths and weaknesses. David Botterill, chief execu-

tive of the Engineering Employers' Federation in the West Midlands, says: "We are still seeing about 70 per cent of businesses at - or above - the levels of last year, while around 30 per cent have seen some slackening of demand."

"Some sectors are doing pretty well - the electric and electronic companies are seeing reasonable growth. But the situation is also mixed in export markets, with France and Germany not experiencing the manufacturing output growth they had anticipated. Meanwhile, companies operating in the US have progressed steadily. And those in the Pacific Rim are still reporting very good business."

Such variability has

reinforced many larger engineers' belief in the virtue of diversifying away from their historical base, producing lower-value products for home markets. The result is a rapidly changing map of some of the region's most traditional, metal-based manufacturing sectors.

Glynwed International, the diversified engineering group, last month announced it would sell more than 20 of its more traditional companies. Glynwed said the companies - including such areas as copper tubing, cast iron and PVC sections - were too involved in domestic markets and commodity-type products. According to David Larkam, engineering analyst at Albert Sharp brokers, Glynwed is following

trend which has significant implications for the structure of the region's engineering sector.

"A lot of these larger companies are looking for a higher quality of earnings as they have seen the ratings that groups such as Siebe and TI are on," he says. "To get better growth you have to forsake the lower value-added, metal-banking businesses. Larger companies are selling-off their traditional areas of West Midlands manufacturing, which will probably end up going through the management buy-out route."

"There will be rationalisation in certain areas for these companies. But they're the base of the supply chain, and will survive in one form or another."

Pressure on auto parts business

Continued from Page One:

changing strategies within individual companies. For instance, BSG International aims to split itself into two companies to concentrate on its car parts business while selling or floating its motor dealership division.

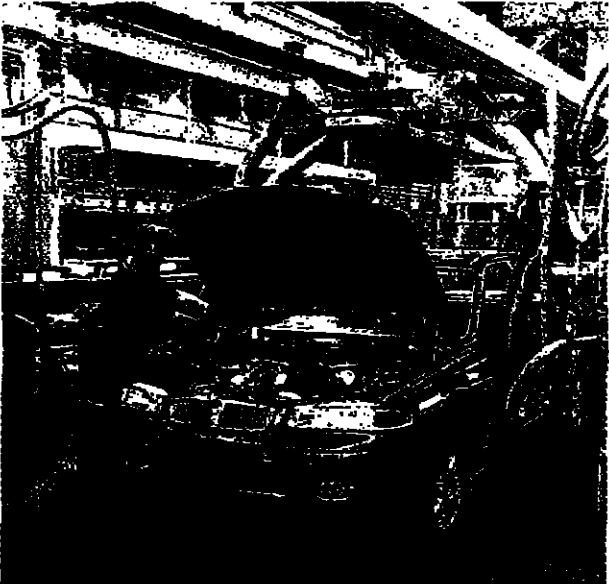
In components, BSG is developing joint ventures across the world, including a European deal with Koito Manufacturing of Japan to develop its range of lighting products.

Through its Briax brand, the company is also planning to develop in the aftermarket of spare parts, where margins are higher than the traditional market supplying manufacturers.

Richard Marton, chief executive, says: "Manufacturers' requirements are changing and we are becoming much more independent, which allows us into the 'after-market'. They are paying less for tooling and relying on us to service customers better."

The challenge for the West Midlands panoply of automotive suppliers is whether they can maintain the pace of change as the structure of the industry rapidly evolves. David Fletcher, of Deloitte and Touche, says: "Rationalisation of suppliers does not necessarily mean reducing capacity. It means re-ordering existing capacity. In fact, it may well mean an increase in capacity to meet the increasing demands of the vehicle assemblers."

"The bigger threat to suppliers here is that the low-cost demands of the assemblers will lead them to look further and further afield for bits and pieces," he adds. "While the UK is low-cost in European terms, it cannot compete on a global basis on cost alone."



Companies such as Rover have changed their production methods significantly and gone to their leading suppliers to help them do the same, but it is a slow process further down the supply chain

Regional infrastructure • By Richard Wolfe

Row over transport delays

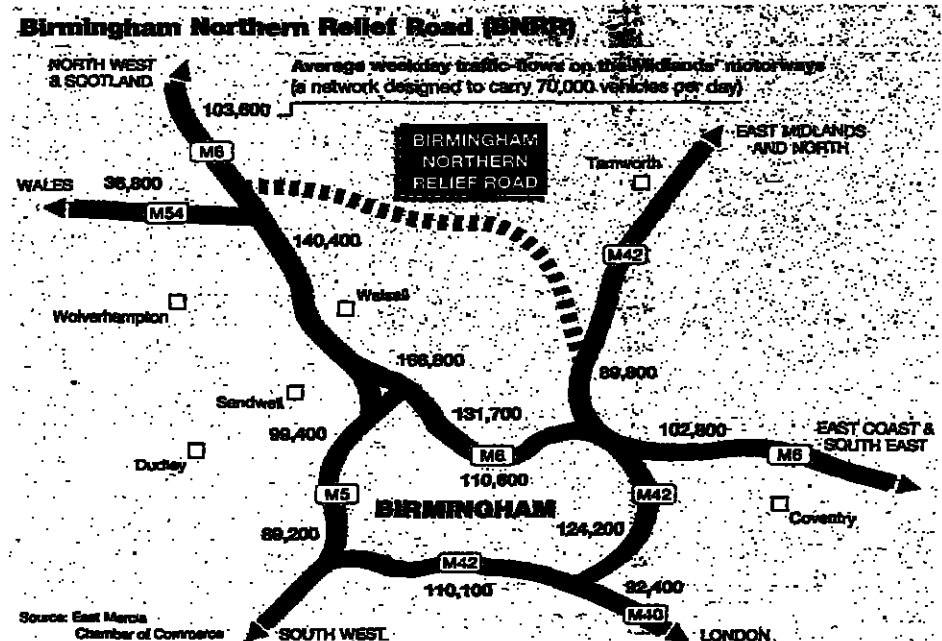
Motorway congestion is hindering inward investment, says the business community

When the Confederation of British Industry asked West Midlands businessmen which were the most important issues for the region's competitiveness, transport took three of the top 10 positions.

Road communications were the second biggest priority, with air and rail links not far behind. For a region situated at the UK's crossroads, transport is clearly not just one of its biggest strengths but also one of its most fundamental concerns. Parts of the motorway network carry more than 180,000 vehicles on a weekday - on routes designed for 70,000 vehicles a day.

It is hard to find a meeting of West Midlands businessmen which does not begin with a diatribe against either the region's overcrowded motorways or the declining standards of the West Coast main railway line. Such anger is doubly felt because of the delays in providing a solution to the congestion.

The principal issue for the region's road network is the Northern Relief Road, which is designed to take national traffic away from the M6 north of Birmingham. Although a year-long public inquiry ended almost a year ago, no report has been issued to the project, intended to be a privately-operated toll road. It is likely to take the environment sec-



retary a further six months to decide on the report and another year before construction would begin.

Such delays are already having an impact on inward investors. According to the West Midlands Development Agency, some prospective investors are now searching for sites to the east of the M6 for quicker links to London and the Channel Tunnel.

In comparison to the motorway network, the West Coast main line - providing InterCity rail services from London to the West Midlands, North West and Scotland - has suffered from even more political considerations. Although the line was promised a £1bn modernisation project which would begin last summer,

the scheme has been thrown into confusion by the government's privatisation strategy.

The line's problems are clear to many regular travellers on the flagship London-to-Birmingham service. The 115-mile journey ought to take around one hour and 42 minutes. In contrast, on the East Coast main line, it takes just one hour and 47 minutes to travel the 189-mile journey between London and York.

While Railtrack has already awarded contracts to develop the line's new signalling system, the financing of the full project remains unresolved. The franchise for InterCity West Coast - once one of the first in line for privatisation - has been

delayed until later this year. Andrew Millward, of the West Midlands Business Focus Group, says: "Our concern is that while the railway is getting by at the moment, things are going to get dramatically worse over the next few years as more and more time goes by before the very urgent work is done. Our concern is less about today's problems and more about tomorrow's."

In contrast, the privately-funded work on a rail freight terminal in the region continues strongly. Eams Hall, the site of the former power station at Colehill, near Birmingham, is already moving towards its stated intention of becoming a £300m national distribution park, with a terminal linked to the

Channel Tunnel. Bass the brewers and NFO logistics have committed themselves to a 14-acre site for drinks distribution, which is likely to be ready this autumn.

But the real glimmer of hope for the region's transport system is the hard-won planning victory of Birmingham airport to ensure its £400m expansion. The airport plans to expand to almost twice its current size within 10 years, but was almost blocked by the environmental concerns of Solihull councillors.

After agreeing to a series of concessions over night flights, the airport won approval and, just as importantly, secured its £130m deal to sell a 40 per cent stake to Aer Rianta, the Irish ports operator.

However, it is the region's rail and road networks which pose most problems for the competitive position of Birmingham and the West Midlands. Few in the region can see an immediate solution - at least, until the general election is over.

David Maxwell, chief executive of Birmingham City 2000, which represents the city's financial and professional businesses, says: "It looks brilliant on the map, with all those blue lines of motorway, but it is only when you are sitting there in a traffic jam on the M6 that you realise the reality."

"I think we have lost-out in the region because central government finds it politically too difficult to do anything before the general election. And if they do not decide something soon, we'll find it increasingly difficult to deliver what we promise."

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REINSURANCE

A flurry of acquisitions has emphasised the demand for reinsurers that have the financial clout and geographical spread to absorb big risks. Ralph Atkins examines the reconstruction taking place in the industry

Giant leap to globalisation

It was, says Hans-Jürgen Schinzler, chairman of Munich Re's management board, "a great step forward" for the German group. But the \$3.3bn acquisition by the world's largest reinsurance company of US-based American Re last month also symbolised the giant strides taking place in the international business of protecting conventional insurance companies against big losses.

The German group's deal was one of a rapid succession of moves by the biggest reinsurers to build global businesses that can withstand the rising cost of natural disasters and ride an increasing competitive trading environment. "It was like a game of musical chairs. There really were just a few chairs," says Gary Parr, head of global insurance at Morgan Stanley.

As reinsurance underwriters and brokers prepared for their annual rendezvous in Monte Carlo, they had barely time to pause for breath. Munich Re's acquisition came only a month after US-based rival General Re announced plans to buy National Re for \$940m. And, late in August, Swiss Re, the second biggest reinsurer, swooped to spend £1.75bn buying Mercantile & General, the UK-based life and health insurer which its owner, the Prudential Corporation, had lined up for flotation.

Driving the flurry of acquisitions have been forces as strong as any earthquake. Most powerful has been the "flight to quality" among reinsurance buyers. There is a demand for reinsurers that have the financial clout and geographical spread to absorb big risks.

John Pelly, chairman of not-marine reinsurance at Willis Corroon, the insurance broker, says: "There is a concern about what happens five or 10 years down the line, not knowing whether their reinsurer is going to be there to pay the claim."

But there are other changes taking place in the reinsurance world which require strategic

thinking by the market's participants. In prospect is a significant revival in fortunes in the London insurance market now that Lloyd's of London appears to have secured its financial future. No one expects a big impact immediately. Lloyd's underwriters are wise enough to avoid expansion at a time when the competitive pressures are mounting.

But the troubles of Lloyd's over the past five years have created opportunities for others - particularly in the tax haven of Bermuda. Now, Lloyd's has made a break from the past, it could return to the offensive. David Rowland, chairman, says: "The upsurge of goodwill towards Lloyd's will be phenomenal."

Bermuda, for its part, is keen to build on its extraordinary growth in the past few years. The island's strongly-capitalised catastrophe reinsurers are diversifying into new products and markets, including London and the potentially vast Asian markets.

The increasing maturity of Bermuda's biggest companies, coupled with the revival at Lloyd's, will increase the competitive pressures faced by reinsurers which have already sent reinsurance rates tumbling.

The absence of large-scale natural catastrophes in the past few years has curbed claims - even last year's violent Caribbean hurricane season had less impact than feared. The stronger balance sheets that have resulted have, in turn, encouraged underwriters to lower premiums to maintain or build market share.

Rate cuts of as much as 20 per cent were not uncommon at the New Year renewal season. And Stephen Riley, the chief executive of Swiss Re (UK), warns premiums "are about to cross the murky water between what is just about an acceptable commercial rate and an unacceptable rate".

Some believe the consolidation trend might stem price cuts, as larger groups become more pro-



Alan Shearer (left), the £15m footballer - page 8; a tornado as seen in the film Twister (top) and the aftermath of a hurricane (bottom) - pages 6 and 7; and (right) the bombing in Manchester - page 8



fessional and control larger market shares. But that might prove to be wishful thinking. When mergers take place, there are economies of scale to be gained which then allow products to be offered on more competitive terms. Meanwhile, smaller reinsurers, faced with the threat from increasingly big rivals, seem to have taken pre-emptive moves to retain business by cutting their rates first.

At the same time, reinsurers are finding that the nature of their product is having to change. Mr Pelly of Willis Corroon points out that in a buyers' market, reinsurers are having to offer an increasingly sophisticated range of products to clients aware that conventional insurance exposures are only some of the risks to which they are exposed. "They are going to have to absorb other types of exposure - to interest rates, currency movements and equity markets, for example," he says.

Reinsurers are having to think beyond their conventional risk

transfer products. They are increasingly building expertise in asset management and consulting - rather than relatively simple reinsurance "commodity" products.

Boundaries between reinsurance and conventional insurance are breaking down. One of the attractions to Munich Re of American Re was the latter's expertise in providing reinsurance to organisations such as public authorities which are increasingly avoiding buying insurance from normal suppliers. Instead they are setting up their own low-cost "captive" insurers, often off-shore. American Re then provides reinsurance to the "captives".

Perhaps the biggest threat to reinsurers could be the so-called "securitisation" of reinsurance risks. Here the boundaries between the reinsurance world and capital markets are becoming blurred. The idea, in its simplest form, is that the capacity of reinsurers is insufficient to cover against the biggest risks - say a

\$100bn earthquake in California - and that, instead, capital markets should be tapped.

USAA, one of the largest US motor and household insurers, this summer tested interest in bonds on which the returns would depend on the incidence of hurricanes. Holders would surrender their principal if USAA were to suffer more than \$1bn in claims caused by a single hurricane in the next year.

As envisaged at present, such products would complement, rather than threaten, traditional reinsurance. They would provide cover that even the biggest reinsurers are unwilling to provide. It is far from clear that such products can be priced at an attractive level to make their use widespread or that non-specialist investors would continue to provide capital on as long-term a basis as expert reinsurers.

The danger, however, is of such products developing to such an extent that they eat into traditional reinsurers' core markets. Michael But, chief executive of

Mid-Ocean, the Bermuda-based reinsurance company, says: "To say that it is a risk to the industry is really to extend the potential to incredulity at this stage. But things happen very quickly in financial markets."

Either way, the reinsurance industry knows it cannot escape the seismic forces affecting the sector. As the nature of products change, reinsurers will be looking to add to the range of skills they can offer - and for services that can command a higher premium than basic commodity products.

The pace of consolidation may slow; the perceived wisdom is that most of the opportunities for the biggest reinsurers to make substantial purchases have been exhausted. But consolidation never stops. As reinsurance converges with other financial services sectors, Mr Parr of Morgan Stanley, ponders: "In the next five years, will a large reinsurer merge with a large investment bank or merchant bank? I think it is a possibility."

FINANCIAL TIMES SURVEY

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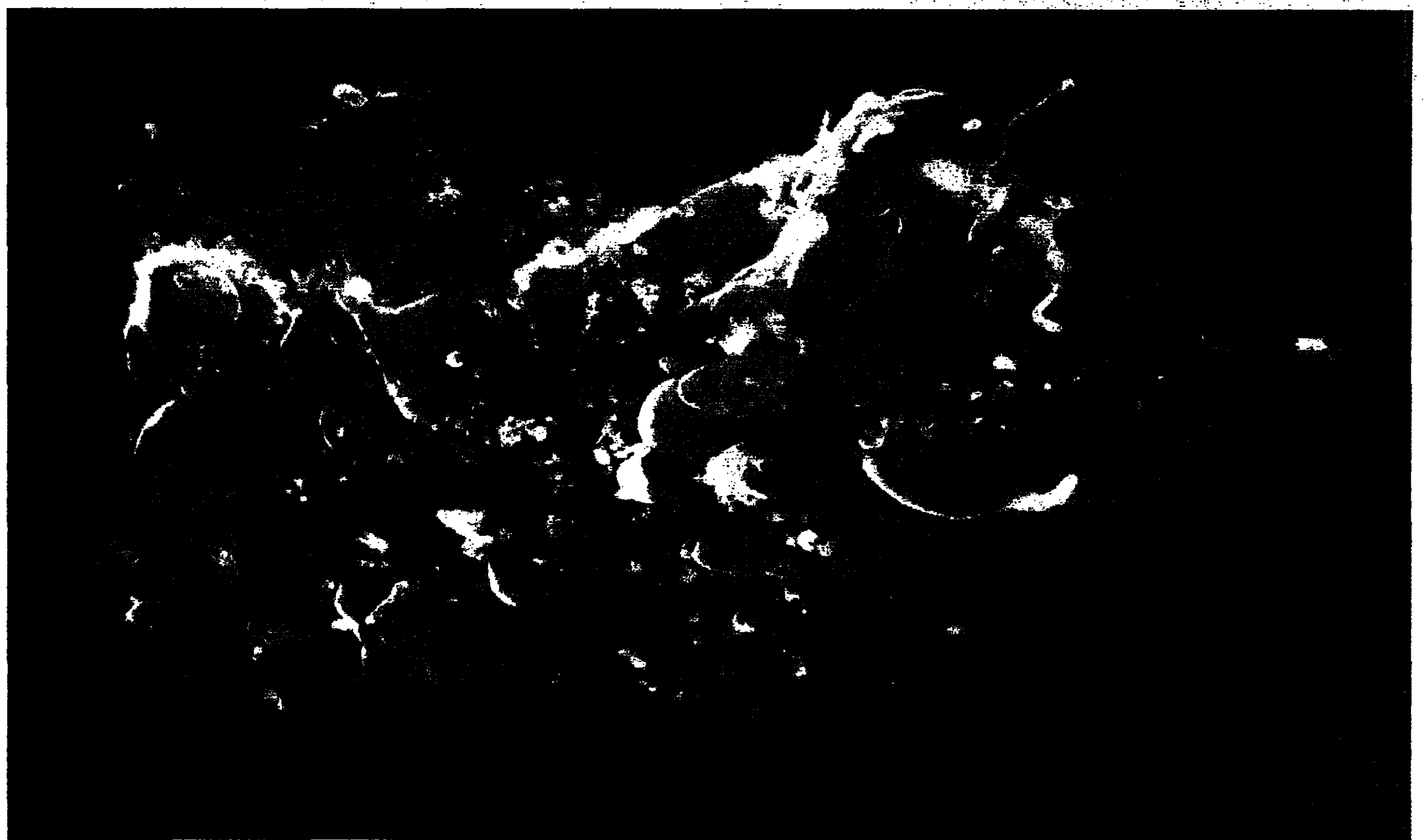
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A not-so-revolutionary idea calls for understanding your customers and their needs. Hard as it is to imagine a service company without a full understanding of its customers'

needs, we too plead guilty. In the past, we developed insurance products and sold them to whoever wanted them. But we've long since stopped the practice. Now, we are in constant

dialogue with a number of industries, learning more about them, even having our experts trained by them. In fact, our solutions are being developed jointly. Does this

concentration on selected industries mean we don't seek others? Indeed it does. Not out of arrogance, but based on a sound strategy: Serving customers whose po-

tential hazards we know thoroughly, and having the expertise to offer meaningful risk management concepts keeps us focused and is much more beneficial. For all concerned.



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2 REINSURANCE

London market: by Ralph Atkins

Lloyd's emerges into the daylight

The turnaround in fortunes is leading to big changes in the London market

Lloyd's of London is back. The prospect of the insurance market finally implementing its recovery plan - which took more than a year to construct - marks a remarkable turnaround for the 308-year-old institution. The question now is, does the saving of Lloyd's foreshadow a revival in fortunes for the whole London international insurance market?

Changes might take some time to become perceptible to the outside insurance and reinsurance world. The sector is in a downturn and those who manage Lloyd's syndicates know it would be unwise to expand rapidly.

Herbert Haeg, chief executive of Bermuda-based reinsurer Partner Re, says: "It could be suicidal if Lloyd's tried to expand in today's weak market conditions. The insurance world does not believe that Lloyd's should have a greater role than it has at the moment."

But already the turnaround at Lloyd's is leading to profound changes in the way the market works, with inevitable knock-on consequences for other reinsurers. The recovery plan, *Reconstruction and Renewal*, included a \$3.2bn out-of-court settlement offer to loss-making Names, the individuals whose assets traditionally supported the insurance market. That should end most of the litigation which has blighted Lloyd's reputation and crippled its debt collection.

The plan also set up Equitas, a giant reinsurance company which is taking responsibility for billions of pounds of outstanding US pollution and asbestos liabilities. This has created a "new" Lloyd's, unencumbered by its past problems.

David Rowland, Lloyd's chairman, says: "We have evidence there is a real place for Lloyd's in the future. People want Lloyd's and London to be a clearing

house for international business. We have got a good client base to work from. The upsurge of goodwill towards Lloyd's will be phenomenal."

As Lloyd's emerges, blinking into the daylight, the most noticeable difference is the transformation in its capital base. Once Lloyd's was backed only by wealthy Names.

Now it also consists of a variety of fast-evolving limited liability companies, including increasingly large insurance groups operating under Lloyd's umbrella, many of them listed. In turn, that is changing the nature of security - or capital - backing a Lloyd's insurance policy.

The past few months have seen a flurry of takeover activity. This has partly reflected increased appetites for places on the best Lloyd's syndicates. But it has also been due to the constraints on expansion and the pressure, as elsewhere in the reinsurance world, to consolidate and seek cost efficiencies.

In particular, the pure "spread" corporate investors - which were the first to join when corporate capital was admitted for the 1994 account - are disappearing. Instead they are merging with managing agents, which run syndicates, to create integrated vehicles com-

binning underwriting and capital under one roof.

The traditional Names remain. Those who have survived Lloyd's worst years want to profit from its revival. But the increasing dominance of corporate investors - which had supplied some £1.5bn to support underwriting by the start of this year - is, in turn, encouraging a debate on the future organisation of the Lloyd's market.

At the top of many of the newer investors' wish list is an end to the system of "mutualisation" - the principle of the strongest participants having to help pay the claims when weaker members cannot meet obligations. Michael Butt, chief executive of Mid-Ocean, the Bermuda reinsurer which is acquiring the Brockbank agency at Lloyd's, says: "For major companies to have the risk of 'mutualisation' from rogue syndicates is not an attractive component of Lloyd's."

The problem for Lloyd's is that the principle of "mutualisation" provides policyholders with assurance about its financial security and is used to underwrite the trading licences the market has around the world. It also allows smaller operations to set up at low cost, encouraging innovation and entrepreneurship. Ending mutualisation would

therefore remove a defining characteristic of Lloyd's.

Similar dilemmas are thrown up by other possible reforms. For instance, there is pressure to end the "annual venture" - the system by which syndicates are re-formed annually.

David Rowland, Lloyd's chairman, has said he dislikes the system because it is inappropriate when policy claims may nowadays take many years to feed through. But the annual venture allows investors to switch funds easily between syndicates - again rewarding entrepreneurship.

Resolving such conundrums is likely to preoccupy Mr Rowland in his final year as chairman. Debate over the future shape of the market will also affect another part of his mission - to cut costs and increase the competitiveness of services provided by the central corporation. Not until the shape of the market is clear, will Lloyd's be able to decide what services it still needs to provide. Centralised marketing functions may become inappropriate, for instance, if Lloyd's consists of only a few large operators.

One option is to spin off parts of the organisation providing claims handling, insurance policy signing and checking, accounting, training, information technology and other services into a lim-

ited company, Insurance Services. Instead of being funded by subscription, customers would pay according to use. Eventually the new company or companies could be sold to outside shareholders.

A bigger question concerns the future of Lloyd's regulatory department, which was designed for a market dominated by thousands of individual investors. The present system is not only cumbersome but expensive. Lloyd's regulatory department employs 150 people and has an annual budget of £12m. The department of trade and industry (DTI), which regulates the rest of the UK insurance industry, manages with about 120 staff on a budget of £2m.

Such debates are expected to culminate in a review of Lloyd's by the UK government - whatever its political complexion - next year and lead to a wide-ranging overhaul of legislation determining how Lloyd's operates.

The rest of the London insurance market will be watching carefully developments at Lloyd's. While Lloyd's has taken the limelight, the non-Lloyd's market has taken an increasingly large market share. As Lloyd's becomes dominated by large, listed companies, the differences between it and the rest of the London market will lessen.

And the chances are that the differences will also fade between Lloyd's and other main market associations - the Institute of London Underwriters, representing companies writing marine, aviation and transport business, and the London Insurance and Reinsurance Market Association (Lirma), representing reinsurance

and non-marine insurers.

The scope for sharing back-office functions and marketing will grow. Like other reinsurance centres, the London market as a whole is having to adapt to the increased competitive pressures.

The way the market operates poses potential disadvantages. It is a "subscription" market with a number of underwriters signing up to each risk. The advantage is that big risks - such as oil rigs - which no-one insurer could underwrite alone can

be covered quickly and easily. The disadvantage is that a fragmented market involves costly duplication with complex and detailed information often having to be re-keyed into different computers. It also seems weakly placed when the trend internationally is towards consolidation and larger reinsurance groups.

Philip Marcell, Lirma chairman, argues, however, that the market should not be seen as a collection of small operators. "You have got to look at the London

market as a whole, as a competitive centre. All the subscription market is, is a very efficient way of a number of companies underwriting a risk."

Many London market companies are actually offshoots of the world's biggest reinsurers - including Munich Re and Swiss Re. The City's insurance market, "continues to be more innovative than big bureaucratic companies situated in the US or Germany," Mr Marcell argues. Lirma is extending its reach by allowing insurers based elsewhere in the European Union to link into its electronic trading and processing systems.

Nevertheless there is widespread recognition that - like Lloyd's - the rest of the London insurance market needs to rein back costs and remove duplication. Much energy has been expended developing electronic systems including, most recently, "electronic placing support" which could replace much of the traditional face-to-face dealings between brokers and underwriters which have taken place in London since Lloyd's foundation in a coffee house.

Progress in developing electronic systems has been slower than expected. But change appears inevitable - particularly if a revitalised Lloyd's increases the pressure for reform. The conventional wisdom is that, rather than diminishing the role of a subscription market, investment in information technology will attract business into the City. A premium will continue to be attached to the ability to transact business among a large number of operators in close physical proximity.

The prize would be to restore London as the centre of the insurance world. After all, as Marie-Louise Rossi, Lirma chief executive, says: "There isn't a market like it anywhere else."

The turnaround at Lloyd's is leading to changes in the market

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Top 20 reinsurers					
Operating company	Country	Net written premium 1994 (\$USbn)	Net written premium 1995 (\$USbn)	Paid-up cap+surp 1994 (\$USbn)	Paid up cap+surp/ net premium 1994 (%)
Munich Re	Germany	10,437.4	9,349.5	2,836.8	24.2
Swiss Re	Switzerland	5,100.0	4,552.0	4,245.0	83.2
General Re	US	2,374.8	2,088.8	3,770.1	158.8
Cologne Re	Germany	2,058.0	1,776.2	514.2	25.0
Gerling Globale Re	Germany	1,977.3	1,562.1	625.6	31.6
Employers Re	US	1,822.8	2,029.8	2,491.6	131.1
Hannover Re	Germany	1,741.5	1,541.4	751.1	43.1
Frankona Re	Germany	1,699.4	1,891.3	594.8	31.2
American Re	US	1,538.2	1,358.7	1,066.3	71.4
Mercantile & General Re	UK	1,514.7	1,128.7	153.6	9.9
Top Fire & Marine Insurance	Japan	1,248.4	1,032.5	1,047.4	83.9
Swansea Re	Germany	1,247.5	974.2	475.2	38.1
Tokio Marine & Fire Insurance	Japan	1,175.1	1,034.3	29,068.8	209.6
Eben & Stahl Re	Germany	953.2	820.6	293.6	31.5
Transatlantic Re	US	868.4	831.7	590.9	68.0
Employers Re International	Denmark	836.3	831.3	257.1	30.7
Yasuda Fire & Marine Ins	Japan	827.6	720.7	11,821.5	117.8
National Indemnity	US	816.7	812.8	8,454.9	1,035.3
Swiss Re America	US	783.0	708.8	534.9	68.3
Axa Re	France	759.7	553.7	567.4	74.7

Reinsurance collections: by Philip Singer

Easy when you know how

Collecting funds on reinsurance policies has become a headache for many insurers

Following the troubled times of the late 1980s and early 1990s, the London market has sought and, to some extent, succeeded in improving its operational effectiveness, especially its cash collections.

Historically, credit control functions did not have a high profile due largely to the market's reliance on brokers to make reinsurance recoveries. The traditional collection process revolved around the broker's ledger with a focus more on the reconciliation of balances than hard cash.

Invariably settlements at this level provided problems such as a lack of detail when identifying those reinsurers who were actually paying claims. Inevitably this complicated the task of cash allocation. Allocation errors often only came to light years later, perhaps when a cedant entered run-off or became insolvent, when necessity forced it to move away from a broker-based ledger to a principal-based ledger and direct approaches were finally made to reinsurers for settlement.

The market's exposure to a broker-driven collections process has been increased by the number of broker insolvencies in the past 20 years. Insolvencies have added to delays and those delays have been exploited by some reinsurers who have been only too happy to avoid their liabilities, claiming time bars as a defence.

In some cases, brokers themselves have held cash for so long that they have eventually released it to their own profit and loss accounts in the belief that after six years the money becomes theirs by default. For that to happen illustrates the complete reliance placed on a broker by a reinsurer.

The London market has begun to recognise that deficiencies exist in the traditional collection methods and over the past 10 years steady improvements have been made in the way in which reinsurance collections are approached. Although still not widespread, insurance companies and some Lloyd's syndicates have created principal-based ledger systems.

From our own experience as liquidators, provisional liquidators and scheme administrators of a number of insolvent insurance companies, a principal ledger is

essential for the identification of net debtors and net creditors. The fact that very few of the companies that have come into our stewardship over the past 20 years ever employed such systems speaks for itself.

For a solvent insurer, the principal ledger has many benefits including the identification of non-paying reinsurers and the ability to ensure that monies are not being paid to such companies when they are also cedants. Additionally, potential time bar problems are

security, is beginning to allow the market to improve cash flow and reduce bad debts.

In addition to this improved operational structure, there have also recently been some helpful legal decisions. For example, the Wallbrook v Group Josi (1995) judgment effectively ended the stance taken by certain reinsurers who pleaded their own illegality to avoid debts.

Furthermore, the House of Lords decision in Charter Re v Fagan (1996) noted that collection of reinsurance recoveries was not conditional on the prior settlement of the underlying claims. While the case was brought by a plaintiff who was unable to pay claims due to its insolvency, the judgment made no distinction between insolvent and solvent companies and it will be interesting to see whether solvent insurers try to take advantage of the potential cash flow benefits this judgment could provide.

So, with the steady improvements in organisational structures and assistance from the courts, it is easy to gain the impression that the collection of reinsurance is no longer one of the main problems troubling the London market. Regret-

tably, this is still not the case, and regulators and market analysts have been forced to reconsider the extent to which credit should be taken for ceded reinsurance.

The improvements in collection techniques generally came too late to avoid the bad debts incurred by the rash of insolvencies experienced in the early 1990s, when notable casualties included Chancellor, Orion, Charter Re and the Kwelm companies. The past 10 years have also seen a steady rise in the number of companies going into run-off.

The number of commutation deals being offered by such companies provides creditors with many difficult decisions to make. Are the deals being offered truly reflective of the reinsurer's financial status? The continuing trend of UK run-offs deteriorating into insolvency means that creditors often prefer to accept large discounts, believing that funds now are better than future dividends in a prospective insolvency.

It is in these types of areas that the implementation of a principal-based ledger can save time by identifying targets early and allowing set-

Deficiencies exist in the traditional collection methods

essally monitored on an individual reinsurer level. This system provides the opportunity to work in harness with the broker who is able to continue collecting from good security while the poor security may be chased directly for settlement.

The continued development of information technology within the London market also saw the introduction of The London Insurance Market Network (Limnet) in 1997. This had important implications for Lloyd's, the London Insurance and Reinsurance Market Association (Lirma) and Institute of London Underwriters (ILU) members due to the implementation of a central settlement system. While improving the administration and organisation of collections between members of the bureau, central settlement also caused its share of problems. We have seen instances where a bureau member has placed much of its reinsurance outside the London market and, due to its poor security and unorganised collection techniques, a situation has arisen where an analysis of their accounts has shown that creditor balances were considerably less than debtor balances. With funds continually being paid out of the front door with little being recovered on reinsurance, cash flow problems are inevitable and the risk of insolvency greatly increased.

A number of London market run-offs past and present have experienced such problems.

In general, the increased willingness to pursue debts directly, along with the proliferation of specialised collections consultants eager to assist in obtaining settlements from even the poorest

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BZW - Global corporate finance capabilities for financial service companies



BZW advised GRE on the sale of its Swiss reinsurance operation, Guardian Re, to Transatlantic Reinsurance, part of AIG.

July 1996



BZW advised Trygg Hansa AB on the sale of its majority interest in Hansa Industrial (The Netherlands) to Sampo Group (Finland).

INVESTMENT BANKING. FROM A TO Z



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Continued from page 2

lements to be achieved directly before the worst happens and a potential bad debt achieves its potential.

One other area which is hindering the flow of reinsurance collections is the willingness of reinsurers to resort to litigation in a bid to avoid their liabilities. In particular, there has been a swing towards the analysis of reinsurance wordings where skilled lawyers draw attention to ambiguities that in happier times were blissfully ignored. The important cases heard by the House of Lords earlier this year, *Charter Re v Fagan*, *Axa Re v Field* and *Hill v M&G*, illustrate this point. In the latter case the litigation is far from finished and has been remitted back to the High Court. Professional arbitrators are also doing brisk business as more and more reinsurers find ways to dispute their liabilities.

It may be cynical to assume that reinsurers are prepared to put up any argument simply to delay or avoid settlement of losses, but they are often so successful in creating delay that the reinsured has no option but to litigate or arbitrate. In many cases, a compromise agreement is reached. This is a pyrrhic victory for the reinsured, with the reinsurer having earned himself several months' grace and strengthened his precious cash position accordingly.

To conclude, the message is clear that the market is slowly recognising the importance of reinsurance collections. Conditions in the market remain difficult and with cash flow always under the spotlight the prospect of reinsurers eagerly queuing up to pay their reinsured's claims are dim. However, with a positive collections strategy supported by the appropriate systems and a willingness to communicate with brokers and reinsurers, much can be done to alleviate collection problems.

Philip Singer is a partner in the National Insurance Brokers practice of Coopers & Lybrand.

The reinsurance hunters by Ralph Atkins

Professional claims collectors

Companies in distress can call on the services of hunters to track down amounts due

When a company experiences difficulties, there are always problems disentangling the assets. When large insurers are in trouble, the difficulties in determining the amounts that can be raised from their reinsurers might seem insurmountable.

In the past few years, the collection of reinsurance from insurers in "run-off" - where no new business is being taken but outstanding

claims continue to be serviced - has become something of a new science.

One of the pioneers is Equitas. This is the giant insurance company which Lloyd's envisages will take responsibility for billions of pounds of Names' US asbestos and pollution-related liabilities outstanding on policies sold by the insurance market's syndicates over a number of decades. Names are the individuals whose assets have traditionally supported Lloyd's.

As well as agreeing claims with policyholders, Equitas has to unravel the spider's web of reinsurance policies taken out by the Lloyd's syndicates each year - either

with other syndicates or with outside reinsurers.

The task is enormous. There are about 220,000 reinsurance policies involved in the project, underwritten by 5,500 reinsurers.

It is not clear how many of those reinsurance companies have gone out of business but Equitas envisages collecting substantial sums. Initial balance sheets suggest about \$4bn is expected.

It is not just the numbers involved that make the task hard. There are so many potential conflicts that have to be resolved. If, for instance, Equitas agrees to settle a claim early with a policyholder, the impact on different reinsurers may

vary - and some might benefit while others have to make payments.

Equitas is using computer modelling, as well as complex negotiations, to try to avoid upsetting the reinsurers.

As well as its own staff, Equitas is employing 70 outside organisations to help. Most are Lloyd's agencies running underwriting syndicates at Lloyd's or specialist "run-off" companies.

Michael Crall, Equitas's chief executive, says: "Equitas has considerable scope to improve the efficiencies of intra-market, inter-syndicate transactions. It is clear, however, that we must not allow the pursuit of efficiency to

jeopardise in any way the interests of our reinsurers."

Equitas is not the first large-scale operation of this kind. For the last four years, a less well-known organisation, KMS, has been handling the mess left by the insolvent Kwelm Insurance companies, subsidiaries of the failed London United Investments. The Kwelm companies went into provisional liquidation in 1992.

The scale of KMS's work is not quite as large as at Equitas. Reinsurance recoveries of about \$2.5bn-\$3.5bn are expected compared with the total estimated liabilities for the Kwelm companies of about \$9.5bn. But its experience offers lessons for Equi-

tas. Ian Sleeve, KMS managing director, says a big problem is persuading some reinsurers to pay up. Because the Kwelm companies are insolvent, reinsurers regard the book as inherently unprofitable - and there is no chance of further business from their former clients. "Less financially stable reinsurers will be looking for reasons to avoid paying their liabilities," Mr Sleeve says.

This could become a difficulty for Equitas once the distinction between it and the still-trading Lloyd's market becomes clearer. "If Lloyd's and Equitas are trying to put themselves forward as distinct organisations, then Equitas may find some similar problems because they cannot use the leverage of on-going business," Mr Sleeve adds. And when reinsurance coverage is being disputed, the cash

flow dries up. The answer is to have high quality staff, well briefed about reinsurers' liabilities. This is not always easy because often insurers have been thinly staffed and have relied on the insurance brokers which supply them with business to keep records. "You have got to be tenacious. You do have setbacks."

KMS is prepared for a long slog. Like Equitas, it is likely to be 15 or 20 years before its work is complete and the last claims on insurance policies they are servicing are finalised. Of course, the volume of work will diminish gradually. But both Equitas and KMS will be alive to the opportunities for offering their services to those left looking after future insurance companies in distress - and building on their experience as professional reinsurance hunters.

Continental Europe by Herbert Fromme

American heavyweights enter the market

Two US reinsurers have made significant acquisitions in Germany

While German insurers are struggling to cope with one consequence of the 1994 liberalisation, a ferocious price war in motor insurance, at the same time they are having to adjust to enormous changes taking place in the reinsurance industry. The German - or better, the continental European - reinsurance market is changing with a speed and power most insurers dared not dream of three years ago.

The most noticeable sign of this change was the arrival of two US heavyweights. In November 1994, the largest US reinsurer, General Re, took control of the second largest German reinsurer Cologne Re. The seller was insurer Colonia, part of the UAP group of France.

In the bidding for Cologne Re, General Re managed to beat its fellow US reinsurer Employers Reinsurance Corporation (ERC).

But ERC did not take long to strike back. In May 1995, it bought Munich-based Frankona Re from the Gerling insurance group, and the business and the name of Aachen Re, but not the company itself, from Aachen Munich.

The coming of the Americans was clearly the main event, but there were other moves, too. French insurer Scor integrated Deutsche Koord Re into its group and renamed it Scor Germany and the Hannover Re/Eisen-Stahl Re concern was reorganised.

Not everyone believes this has changed the German market to any great extent. Hans-Jürgen Schindler, chief executive of Germany's and the world's largest reinsurer, Munich Re, said: "There are no indications so far of a change in Germany influenced by General Re and Employers Re purchasing German reinsurers. In our opinion, these acquisitions will be noticeable much more in the international presence of the two US companies, rather than specifically in Germany."

Mr Schindler denies that Munich Re's acquisition of US reinsurer American Re in August this year was an answer to the US reinsurer's move into Munich Re's home ground. "Not at all. Our aim was to improve our position in the US reinsurance market and to broaden the geographical spread of our reinsurance portfolio. We want to combine our know-how in innovative markets such as financial reinsurance and alternative markets with that of a specialist in that area."

Not everybody was happy about the arrival of the American reinsurers in Germany. Peter Litke-

Bornfeld, chief executive of Cologne Re, is experiencing three reactions from customers since the company was taken over by General Re. "Some people said, it is good to have another very large and professional reinsurer operating here, with its capacity and know-how. The second reaction: 'We see the concept, but you have to convince us. We will watch how this develops.' We also had a third reaction, with people nursing their prejudices against American companies without checking their facts on this reinsurer. Naturally some of our competitors have stressed that latter angle."

The reservations of some German insurers are based on the fear that Americans tend to think in the short term, going in when the market is high - as it was in 1993 and 1994 - and perhaps getting out again when it becomes weaker, as is the case now.

There is also a considerable difference in management culture. Mr Litke-Bornfeld can understand the worries. "People are, of course, right to ask questions. Can we still rely on our reinsurer in five years' time? This is the sort of question primary companies have to ask themselves." But he points out that General Re is there to stay, and that for primary insurers, the security and the size of a reinsurer is becoming far more important.

Bernhard Fink, chief executive

of Frankona Re, believes there is little, if any, resentment in the market to the American ownership of his company.

"On the contrary," he said, "insurers want first-class security, new ideas and alternatives that could not be provided before. And they are getting all that now." Under the new arrangement, ERC Frankona - the name under which the group is now trading in Europe - could muster much more capacity and provide reinsurance on a scale not possible before.

Enormous changes are taking place in the industry

Wilhelm Zeller, who moved from Cologne Re to become chief executive of Hannover Re on January 1, has a different view. "After the recent moves of American reinsurers into the German market, alternatives are needed," he said. "Some cedants tell me that they woke up one morning and found 50 per cent or more of their reinsurance with American companies." As a result, they intended to reduce their exposure to American companies by placing their business with non-American companies, such as Munich Re,

the Swiss Re affiliate, Bavarian Re, and Hannover Re, Mr Zeller said.

He believes that the German market has changed fundamentally. A German reinsurance buyer used to be able to choose from at least three segments, he said. "These were the large German reinsurers dominating the market, a number of small and medium-sized domestic and international companies, and the reciprocal exchange of business among primary insurers. The latter category is dead for all practical purposes," Mr Zeller said. "The small and medium-sized reinsurers are also on their way out. And half of the first segment of the major companies has become American. That is why the market feels it needs a German alternative."

For Bernd Michaels, head of leading regional insurer Provinzial Düsseldorf and president of the German insurance federation GDV, it is very important that a reinsurer offers his cedant "real and genuine capacity", not just assembling capacity via retro markets. "The financial strength of each individual reinsurer will become more important. Primary insurers also want intelligent and individual solutions, including new products such as financial reinsurance," he said.

Risk and portfolio analysis, and help with product design and tariff calculations are also needed -

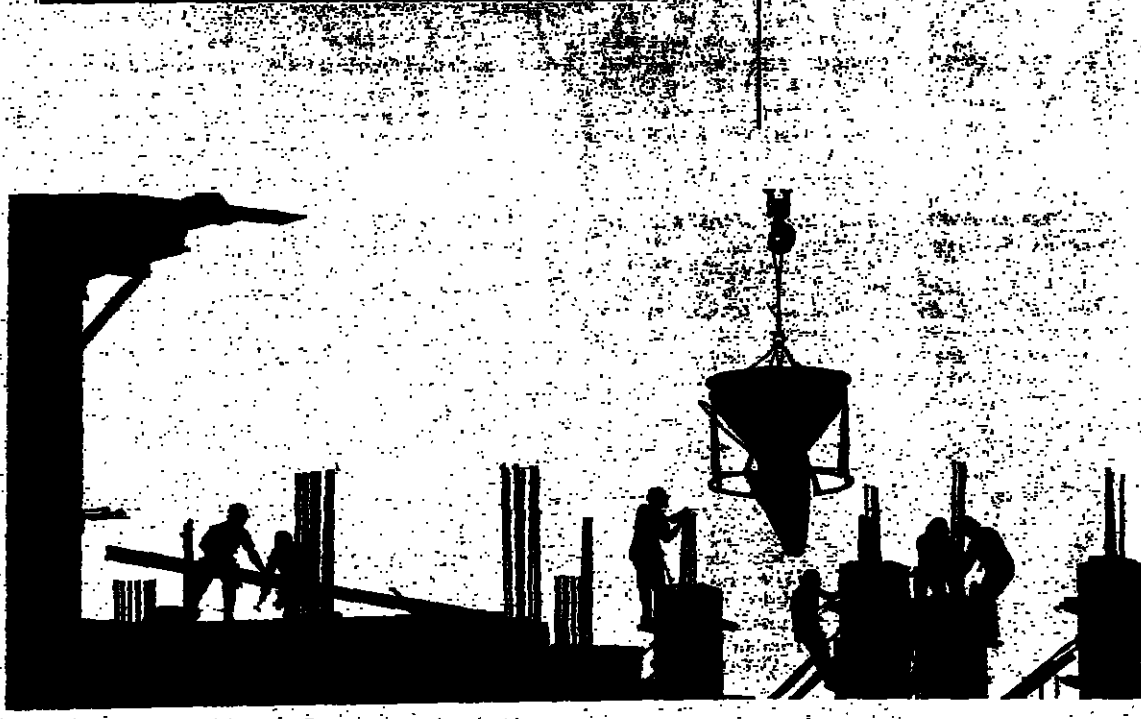
especially in the newly deregulated German market, where the insurers' associations used to carry out this task. "Only those reinsurers who can act absolutely independently of other group interests will find acceptance and trust in the German primary insurance market," said Mr Michaels.

Whatever their position on this issue, all German insurers benefit from the fall in reinsurance prices. The new, enlarged reinsurance groups can only enjoy the benefits of their size if they write volume. This is one of the reasons for the present competitive struggle. That trend is only partly offset by a growing awareness on the part of European reinsurers that they have to provide shareholder value, too.

For primary insurers, the present low price level is a double-edged sword. It is true that they pay less for protection. But the high availability of reinsurance capacity is leading to fast-falling prices in industrial insurance lines, where most primary insurers pass on more than two-thirds of their business to reinsurers.

And, in the long run, primary companies need financially strong reinsurers, able to perform much needed services. If they have the staying power, the newly-created groups stand a good chance in the market.

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4 REINSURANCE

■ US: by Richard Waters

Reserves bolstered

The jump in surpluses means the industry has rid itself of some problems

The reinsurance industry has seen it all before. Underwriting losses eat into the industry's capital and force a rise in premiums. More capital is drawn back to the market, margins fall and underwriting losses follow.

If that cycle were to repeat itself in the US, the next couple of years would turn out to be highly unprofitable ones for the country's reinsurers.

During 1995, the 80 companies that participate in the Reinsurance Association of America's surveys of the industry recorded a massive 34 per cent increase in their policyholders' surplus, lifting the combined total by \$10bn to \$39.7bn. Most of that change was due to additions to unrealised investment gains.

The largest single factor in the rise was the \$4.5bn increase reported by National Indemnity, the reinsurer owned by Warren Buffett, the Omaha billionaire. But even without National Indemnity, last year's rise in the industry's surplus was well in excess of the average annual gain of 10 per cent or so seen so far in the 1990s.

In some corners of the reinsurance market, there has been a close link between higher capacity and lower premiums. The jump in catastrophe reinsurance

premiums in the early 1990s, for instance, was followed by declines of 15 per cent last year and 10 per cent for 1995, says Craig Elkind, an associate director at Standard & Poor's.

Perhaps fortunately for the reinsurers, however, few seem to think that the link between higher surpluses and lower premiums exists in so mechanical a form for the industry as a whole any more. Much depends on the competitive dynamics in each particular market, says Mr Elkind. "Capital is so mobile, the cycles are condensed," he adds. "We don't think there is an overall cycle anymore."

Meanwhile, the jump in surpluses in the US has presented an opportunity for the industry to consign some of its old problems to history. Swiss Re America, the US arm of the giant Swiss company, and American Re each made substantial additions to their reserves against environmental losses during 1995, continuing a trend which has now seen most of the US's biggest primary insurers and reinsurers bolster their reserves with one-off actions.

The effect of that was to leave the US reinsurers with an overall combined ratio of 109.5 per cent for the year - slightly above their average for the 1990s, and the second-worst result of the decade, after the 118 per cent combined ratio suffered in the hurricane-battered 1992. At their current levels, though, the reinsurers' underwriting results are still ahead of those of primary

insurers. That reflects a shift that has been under way in the US reinsurance market, as underwriters move from accepting proportional risks (meeting a share of an insurer's total losses) to excess-of-loss risks (under which they make payments only when losses have exceeded a certain level). In years when there are few disastrous losses - as has happened in the mid-1990s - reinsurers do better, though they remain more exposed to the big catastrophe.

The recent jump in capital surpluses has also contributed to another notable trend in the industry: the wave of mergers, which has been as apparent in the US as elsewhere in the world. Consolidation remains one way to reduce the capital employed in the business, and to make that which remains work more efficiently.

Together with the drive among the biggest reinsurers to build stronger trans-Atlantic links, that has helped lead to two big acquisitions in recent months: General Re's \$600m purchase of National Re, and Munich Re's \$3.3bn acquisition of American Re.

National Re and American Re were two of the handful of companies in the US that underwrite directly, rather than accepting risks through brokers. That leaves few obvious acquisition candidates for those reinsurers that manage their relationships with their customers directly - though the distinction between the direct and broker routes are not as



Warren Buffett: National Indemnity's surplus rose by \$4.5bn

clear cut as may seem to be the case, says Mr Elkind at S&P. Some of the companies that accept most of their business through brokers maintain increasingly close relationships with their customers, he says.

Also, some reinsurers accept business through different routes. They include Everest Re, formerly Prudential Re, which had premiums of \$670m last year and undertakes around 40 per cent of its business direct. Also, NAC Re, with \$480m of premiums, writes facultative reinsurance direct, but accepts other forms of reinsurance through brokers. While the US reinsurance industry has amassed plenty of capital of its own, meanwhile, other routes may soon open up for new entrants to underwrite a share of the market's risks - with incalculable long-term effects on premium rates. Earlier this summer, USAA, the country's biggest direct writer of auto and homeowners insurance, sought to sell \$500m of bonds backing reinsurance risks, in what would have been the first public issue of such securities.

The overlap of the capital markets and the insurance industry in this way has long been predicted. So far, though, there have been few attempts to sell insurance risk to traditional bond market investors (one of the only ones to date involved a private sale of securities in London by another US company, American International Group).

USAA's attempt, backed by Merrill Lynch, involved seeking \$500m excess-of-loss cover for windstorm damage on the US's east coast. Under the structure, a catastrophic loss could have left holders of the securities facing a loss of their principal, as well as interest.

In the event, USAA's plan was not in place by the time the annual hurricane season had moved into full swing. The company suffered both from having too little time to sell its novel securities, as well as pricing, said one person who has followed its plans. Few expect this to mark the last attempt to develop the capital markets as an alternative to the traditional reinsurance business, however.

■ France: by Andrew Jack

A model system

Since 1982, cover is available in France on most natural catastrophes

In a country with as diverse a climate and landscape as France, it is little surprise that natural disasters are far from uncommon. In a culture which has long been proud of a tradition of solidarity, it should be no shock either that there is a system designed to help cope with the costs of such tragedies.

The French system of natural catastrophe insurance is seen as a model in many parts of the world and combines a number of unique characteristics. Domestically, it is nevertheless a system which is under constant review and subject to a number of demands for reform.

Following a series of natural disasters triggering official inquiries during the 1970s, severe flooding in the Saône and Rhône valleys and in the south-west of France in 1981 finally pushed the government into passing radical legislation in 1982.

Until the law of July 13 that year, only some natural catastrophes - including storms, hail and heavy snow were insured. Many others were excluded, on the grounds that their incidence was too common, and the costs were too high since only those in high-risk areas would have bought policies.

Since that time, everyone with insurance on possessions has been covered automatically by the system. Everyone pays premiums at the same tariffs: 9 per cent of premiums on fire, explosion, theft, housing or corporate contracts; and 0.5 per cent of car damage contracts.

Cover is available on most natural catastrophes - defined as natural phenomena at an abnormal intensity - including flooding, landslides, mud-slides, earthquakes, drought, avalanches, and tidal waves. However, since a modification to the regime in August 1990, storms have been excluded from the definition.

All that is required is a statement from the authorities that an incident is classified as a catastrophe, by a decree published in the French Official Journal. After this notification, claimants have up to 10 days - or one month if asking for compensation for operating losses - to file claims, and the insurer up to three months to pay out beyond a minimum threshold defined in the law of FF1,500 (\$295) for a house, car or other goods for private use; 10 per cent of the damage to industrial or commercial or agricultural property; and up to three days of activity in operating losses.

Given the potentially high costs of such disasters, the 1982 law also gave insurers the possibility of reinsuring their risk, notably through the Caisse Centrale de Réassurance, which offers unlimited cover, underwritten by the state - including cover for war risks. Insurers can also create tax-exempt provisions in anticipation of natural catastrophe claims.

To help with the administration of claims, French insurers have also created co-ordination centres in each region, to liaise between the companies, the public authorities and the media, following any catastrophe.

The French system is one of the few in the world to offer such wide-ranging cover for natural disasters without limits and through a single tariff across the country. Elsewhere in Europe, several countries such as Denmark and Spain have a system involving the state, while others including the UK and Germany offer partial cover through insurers.

Even so, France has a strong advantage: it is not as badly exposed as some other countries to disasters. Total

payments have been less than FF24bn (\$4.7bn) till the end of 1994, compared with \$7.5bn for the 1994 Los Angeles earthquake alone in the US. Mid-West in summer 1995.

The FFSA, the association of commercial and some mutual insurers, estimates that even the figures on potential extreme disasters are not so great: FF60bn if the river Seine burst its banks in Paris, or FF100bn if there was an earthquake in Nice.

Between the years 1983 and 1994, there have been total premiums paid of FF43.5bn, offset by claims paid of FF23.5bn, commissions and charges of FF10.9bn, net reinsurance costs of FF65m and residual provisions and profits of FF4.5bn.

In the same 12-year period, 62 per cent of payments made through the French scheme was in response to flooding. The most important - totalling FF3.7bn during September 1993 and January and February 1994 - were for floods in the north, east and south of France, followed by a further FF3bn in February 1995 in the north, east and west of the country.

A further 30 per cent of settlements were the result of drought or other disasters - including FF4.4bn between 1989 and 1991 affecting buildings in 65 departments of France. The remaining 8 per cent were the result of storms, which are no longer included in the scheme.

The system certainly has its faults. Perhaps most sig-

nificantly, there are no differences in the premiums paid - a change which might make those who wilfully live, work or move into high-risk areas more responsible.

The French insurers prefer to leave the sacred principle of "solidarity" of the system intact, and instead lay emphasis on another important weakness. As Gema, the association of mutual insurers, stressed recently, it has done little to boost prevention measures against catastrophes.

The 1982 law established the principle of so-called "PERs" or state-backed prevention plans in regions at risk of disasters. Some 15,000 of France's 35,000 communes have been classified as facing risks, and 2,000 classified as in priority zones. Yet just 500 had PERs in place in 1994.

Some steps have already been taken to improve the situation. The "Barriere law" of 1995 aims to introduce new integrated safety and prevention plans in the 2,000 communes most at risk by 2000.

Gema also attacks one aspect of the existing tariffs, arguing that households pay disproportionately more than companies in relation to claims incurred, and that this should be reflected in different levels of premiums.

Meanwhile, the FFSA wants the system extended to pay for personal injuries, as well as to an additional form of natural disaster, tropical cyclones, which is a problem in many French overseas departments and dependent territories.

■ Developing markets: by Trevor Petch

Liberalisation gathers pace

Eastern European and Asian countries are creating "national champions"

Since the end of the 1980s, liberalisation of international insurance and reinsurance markets has gathered pace.

In July last year, the World Trade Organisation interim agreement on financial services was signed. In 1994, the European Economic Area was formally established.

In Latin America, the end of the military dictatorships of the "Lost Decade" of the 1980s has led to abolition of national reinsurance monopolies in all but one or two marginal markets.

Even in Brazil, where ending the monopoly of Instituto de Resseguros do Brasil (IRB) requires an amendment to the Constitution, the senate approved the necessary preliminary legislation in July.

In Asia, the drive for membership of organisations such as the OECD has prompted liberalisation of traditionally restricted reinsurance markets.

In the Arab world, Oman abolished its compulsory 30 per cent local reinsurance placement in 1985, and Egypt permitted the operation of foreign reinsurance subsidiaries from January 1 this year. There is also a counter-current to the general trend of liberalisation.

China has opened its market to competition and split up the monopolistic People's Insurance Co of China (PICC). But the new insurance law which came into force last October requires 20 per cent of all reinsurance to be placed in China at the direction of the authorities (to PICC Reinsurance), priority for domestic insurers in the remainder, and allows the authorities to prevent any insurer from engaging in reinsurance transactions abroad.

In Vietnam, another newly-opened market full of

potential, real competition is also developing, but the Vietnam National Reinsurance Co (VinaRe), founded in 1995, takes a compulsory 20 per cent cession of all reinsurance placements.

The decision to establish national state-owned reinsurance companies is not surprising in these two countries, where the communist governments are deeply committed to developing the market under firmly-controlled political conditions.

More depressing for western investors is India, where close to three years after the government-appointed Malhotra Commission recommended ending the monopoly of the General Insurance Corporation of India, there has been little progress.

The leading proponents of new national reinsurance companies are to be found in eastern Europe, and especially the former Soviet Union (FSU). With dozens of undercapitalised new insurers - in the case of Russia, thousands - reinsurance is required simply for consumer protection.

In Bulgaria, a Bulgarian reinsurance company has been established by the state-owned Bulstrad and its client insurers to assume local reinsurance which Bulstrad already provides.

In Poland, the government is a minority shareholder in Polish Re, along with insurers and Polish institutional investors.

In Romania, where there is much concern over the extent of "fronting" the entirety of a risk for a foreign insurer, there has also been discussion of a national reinsurer.

The Czech Republic and Hungary so far appear to be immune from such developments, which in any event are likely to have only a marginal effect upon reinsurance markets - in the absence of legal protectionism since the capital involved is small, and capacity therefore limited.

At the same time, prospective membership of the OECD led Poland to abolish its compulsory 20 per cent

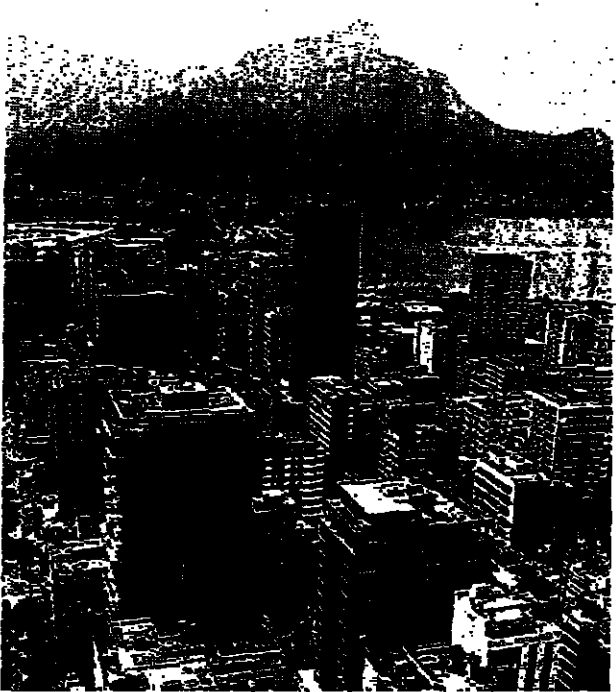
local reinsurance placement in March, having increased the figure from 10 per cent only in January. All the countries of the former Yugoslav Federal Republic have maintained their traditional use of a local reinsurer with a legal right to handle all transactions with foreign markets.

In Croatia, a backward step in market development was this summer's acquisition by Croatia Insurance Co - effectively government-owned - of reinsurance company Slavija Lloyd, upon which its domestic competitors are dependant.

In Russia, there has been a powerful lobby within the government for a national reinsurer with similar legal advantages for over three years. Whenever the local insurance industry thinks it has killed off the proposal, it reappears.

In Kazakhstan, where proposals for re-creation of an even more wide-ranging monopoly were buried by this year's new insurance decree, the idea was immediately floated of restricting instead the terms on which oil companies could insure. In Belarus, special permission is required to reinsure abroad, and only strategic industries have the right to buy foreign exchange. Measures proposed by the finance ministry to enable the insurance industry to gain access to such funds were vetoed.

At the same time, countries such as Moldova and Turkmenistan which formerly placed no restriction on foreign investment in insurance have followed the Russian model and limited participation to 49 per cent. Insurance nationalism has a number of causes. One is simply fear that huge western insurers will swallow the market. Another is national pride, the sentiment which saw many former colonies establish national reinsurers in the 1960s and 1970s as a fetish of economic independence. Unfortunately, new local insurers are thereby deprived of the opportunity of developing experience on



Rio de Janeiro: Brazil is about to abolish its reinsurance monopoly

international reinsurance for themselves. They are forced to accommodate themselves to the often unsophisticated terms on which the national reinsurer is prepared to offer cover.

Perhaps worst, the guaranteed commission from the national reinsurer provides a disincentive to real competition, protecting inefficient insurers not from foreigners, but from better companies in the local market. The most frequent economic argument for national reinsurance companies - often deployed by legislators with the sketchiest knowledge of economics - is that they stop the outflow of foreign currency as reinsurance premium.

Receipts of claims payments and reinsurance commissions are often ignored, and in most cases there is no statistical data to permit calculation of what the net reinsurance balance actually is. And if there were, the last five years have been relatively free of catastrophic losses.

Had the engine plant of the KamAZ motor plant in

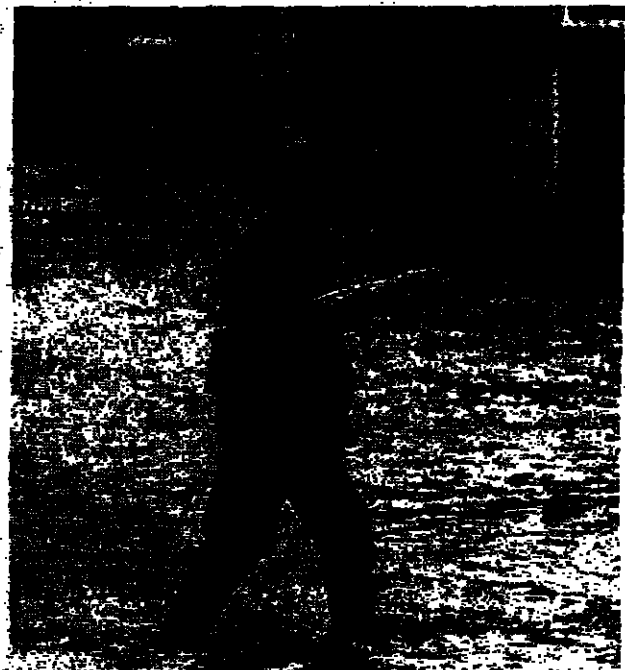
Tatarstan which burned down in 1994 been insured, the US\$390m or so which Russia would have received from reinsurers would have altered the reinsurance arithmetic substantially.

The whole KamAZ enterprise has since been insured for US\$4.5bn. Another danger of the simple association between reinsurance and loss of foreign exchange is the temptation to accept reinsurance from abroad on the basis that premiums are earnings.

This was not an uncommon approach in Soviet times. In 1994, the former state reinsurers of eastern Europe accrued premium totalling US\$12,000 from US insurers, and owed US insurers US\$26m. The result may therefore be the worst of both worlds.

As the Korea Non-life Insurance Association commented in its report on 1994, "good business was re-insured overseas while bad business from overseas was re-insured domestically".

Trevor Petch is editor of the Financial Times' Eastern Europe and Central Asia Reports.



Severe flooding in 1981 prompted radical legislation

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Monday September 9 1996

Andersen puts off strategy meeting

By Jim Kelly, Accountancy Correspondent

Andersen Worldwide, the world's largest professional services firm, will announce today that it is postponing a special partners' meeting called to consider the organisation's future.

At the same time it will publish global revenue figures showing 16 per cent growth to \$9.4bn in the year to August 1996, which should keep it at the top of the "Big Six" league of accounting and consultancy firms. The results are the first global figures for the sector this year.

Mr Larry Weinbach, chief executive, said the organisation, which includes Arthur Andersen and Andersen Consulting, was on course to reach revenue of \$10bn a year by 2000. "This indicates we are on the trail to doubling revenue in the next five years."

As part of its growth strategy Andersen had set in motion a project - code-named Andersen 21 - to look at its future structure. The aim was to try to maintain rapid growth. Andersen believes "spinning off" its consultancy arm has been behind its success.

Mr Weinbach said the timetable for coming forward with recommendations in September was too ambitious. "I'm going to postpone that September meeting. I want to make sure that we have everything in place. It's more important to be right than keep to an arbitrary date."

Of the postponement, he said: "I don't think we are talking years - but not calendar 1996."

There has been speculation that Andersen was considering a complete divorce between the two firms under the Andersen Worldwide umbrella, but Mr Weinbach has denied this. Andersen has admitted there are competitive tensions between the two and profit sharing disputes.

Rather than a complete split, it is more likely Mr Weinbach will try to replicate the success of the split between Arthur Andersen and Andersen Consulting - which has been copied to some extent by other Big Six firms. Further "spin-offs" are therefore thought likely.

One scenario would see up to five firms, covering tax, audit, information technology consulting, strategic consulting and outsourcing. This would allow the merger of competing parts of both existing firms. The complexity of this possible move might lie behind the postponement of the meeting.

A five-way split of the Andersen organisation - which has nearly 100,000 staff and operates in more than 50 countries - would cause upheaval and could encounter severe resistance.

Fox replaces TV entertainment head

By Christopher Parkes in Los Angeles

Fox, News Corporation's US television network, has a new head of entertainment after a further shake-out at the weekend.

Mr Peter Roth, the network's top programme production executive, was named to replace Mr John Matoian, who resigned after only two years.

Mr Roth, 46, and the fifth president of Fox's entertainment group in seven years, takes on the task of driving the network up the rankings to challenge the established "big three" - NBC, ABC and CBS.

Fox has grown quickly under pressure from Mr Rupert Murdoch, News Corp chairman, and finished the 1994/95 TV season in fourth place after apparently winning market share from ABC and CBS.

It is especially popular in the mass market, performs well in the 18-49 age group, and its programmes for women and children are often highly rated. However, analysts say it needs broader appeal if it is to join the elite of US television.

One indication of Mr Murdoch's strategy came in July when Mr David Hill was elevated to president of Fox Broadcasting from his previous job as head of sports. Mr Roth, responsible for successes such as *The X-Files* and *The Simpsons*, will report directly to Mr Hill, whereas Mr Matoian reported one level higher, to Mr Chase Carey, chairman of Fox Television.

Mr Hill's promotion followed his successful, if expensive intervention in the bidding for rights to broadcast major league football. On top of this \$1.6bn commitment, Fox has spent an estimated \$500m on persuading 10 television stations to switch their allegiance from CBS to Fox.

This summer News Corp took control of New World Entertainment in a \$2.4bn deal which gave Fox control of 10 big city broadcast stations.

Mr Matoian's resignation was preceded as usual by persistent rumours. However, it is believed he chose to go because he was uncertain of his place in the changing chain of command.

Increased direct intervention by Mr Hill in the entertainment arm and changes made during an absence due to illness in his family are also believed to have undermined Mr Matoian's morale.

Raymond Snoddy and Andrew Jack on the link-up between NetHold and Canal Plus

Empire builders look to spread the pain

The rationale for the merger of NetHold and Canal Plus, announced last week, was simple. So argues Mr Johann Rupert, chief executive of Richemont, the luxury goods and tobacco group and chairman of NetHold, the pay-TV group.

The pain of developing digital satellite television alone in a large number of emerging markets was simply too great, he says. A partner with additional clout and cash flow was required.

"I would rather have less of a good franchise than more of a weak franchise," says Mr Rupert, who finally chose between rival suitors DirecTV of the US and Canal Plus of France on the grounds that he preferred to build a European empire rather than a more diffuse international one.

"Unless you get into the league of a Rupert Murdoch [chairman of News Corporation] and have an installed decoder base nearer to 10m than 1m, you do not get economies of scale," he says.

His room for manoeuvre was limited by the fact that his South African partner in NetHold, Multichoice International Holdings, feared it might not be able to resist foreign exchange from South Africa at the time when cash calls would come. But mostly it was the scale of investment required to launch potentially hundreds of TV channels that NetHold found daunting.

"To do this deal properly you have got to go to the billions. Five hundred million [pounds] would not be

enough," Mr Rupert believes. As a result, NetHold has been subsumed into Canal Plus, with Richemont owning 15 per cent and MHI 5 per cent. MHI retains NetHold's operations outside continental Europe.

For Canal Plus, the decision to acquire NetHold offered the group increased mass, a larger subscriber base and better access to markets in Europe, particularly in central and eastern Europe. It will also gain a strong presence in Italy through NetHold's stake in Telepiù and end rivalries between the two companies where they formerly competed, for example Poland.

But whatever the strategic grounds for the deal, Ms Rebecca Wilmington-Ingram, media analyst at Morgan Stanley in London, estimated yesterday that the underlying operating loss from NetHold's side of the deal would be about FF\$90m (\$157.5m) this year, of which FF\$75m would flow from its 45 per cent stake in Telepiù. As a result, she was reducing her estimate of 1997 profits for Canal Plus from FF\$60m to FF\$27m, and the 1998 figure from FF\$81m to FF\$40m.

A number of French analysts believe the deal was designed, at least in part, to prevent the Americans of DirecTV, a subsidiary of Hughes Electronics, gaining a foothold at the centre of European pay-TV. It was therefore no surprise that one of the first to welcome the move was Mr Philippe Douste-Blazy, French minister of culture and a leading

defender of the importance of a strong European TV industry in the face of US competition.

Moreover, Canal Plus looked increasingly left out of the rapid rationalisation of European pay-TV.

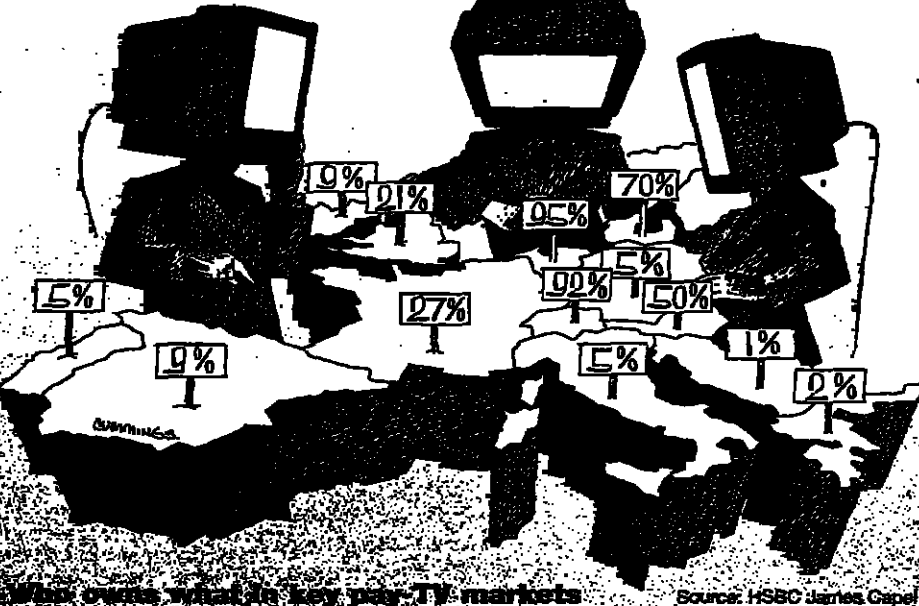
The recent merger between CLT of Luxembourg and the TV interests of Bertelsmann, the German-owned international media group, along with the collapse of a planned alliance between Canal Plus, Bertelsmann and British Sky Broadcasting, all increased the pressure. When BSkyB in turn linked up with Munich-based Kirch it looked as if Canal Plus had missed out.

Canal Plus also faced increasing pressure in its domestic market with the prospect of the new TPS satellite service backed by its rivals TF1 and the state-owned France Télévision. The service is scheduled to start at Christmas in competition with Canal Plus's CanalSatellite digital service, launched in April.

The deal between NetHold and Canal Plus means that the digital TV map of Europe has now effectively been drawn up - at least in the main markets. BSkyB dominates the UK and Kirch looks like being the strongest service provider in Germany.

As for Canal Plus, in spite of the prospect of competition, the company looks set to become the dominant digital provider in France. Italy, where there is hardly any cable TV, has now been

Pay-TV penetration rates



Map shows what is now pay-TV markets. Source: HSBC Market Capital

effectively become neutral - both Canal Plus and Kirch have stakes in Telepiù.

However, battle is likely to break out in Spain with DirecTV determined to establish a European foothold with Spanish partners. The deals have been done, the partnerships struck -

although given the scale of some of the egos involved their permanence should never be taken for granted.

But questions remain, notably whether people actually want hundreds of channels. Mr Rupert is convinced they do and points to the viewing habits of his own

family as proof of this. Mr Rupert, who will become a director of Canal Plus, believes it is such choice, together with "must-watch" live exclusive sport, that will create the new business and make all the risk and corporate manoeuvres worthwhile.

Friedland attacks share freeze

By Bernard Simon in Toronto

Mr Robert Friedland, the international mining entrepreneur, has accused US authorities of severely damaging his business interests by impounding shares valued at US\$152m to defray an environmental clean-up at a Colorado gold mine.

The accusation is contained in an affidavit filed by Mr Friedland in response to recent court orders in the US and Canada which froze a

third of the shares he received from the C\$4.3bn (US\$1.9bn) takeover of one of his companies, Diamond Fields Resources, by Inco, the nickel producer.

The orders are believed to be the first time US authorities have seized assets abroad to cover an environmental clean-up. An Ontario court renewed the freeze last Friday pending Mr Friedland's appeal.

The impounded Inco shares represent the estimated cost of efforts by the

US Environmental Protection Agency to prevent toxic waste from the Summitville gold mine reaching rivers.

Mr Friedland was founder, and, for a time, chief executive and controlling shareholder of Galactic Resources, a Vancouver-based company that developed Summitville. Galactic declared bankruptcy in late 1992.

The EPA secretly won the court orders last month after alleging that Mr Friedland might put his assets beyond the reach of US authorities.

According to Mr Friedland's affidavit, he needs the frozen Inco stock for security to finance business opportunities. He said some of the Diamond Fields shares tendered to the Inco offer were pledged to Bank of Montreal to support lines of credit.

Mr Friedland, who spends much of his time in Australia and Singapore, said he offered a "substantial financial contribution" earlier this year towards the cost of the clean-up without acknowledging liability.

Sime Darby rise prompts query over bank earnings

By James Kynge in Kuala Lumpur

Sime Darby, Malaysia's largest conglomerate, reported a better than expected increase in full-year group net profits mainly because of a strong contribution from a recently acquired local bank and buoyant vehicle demand.

Group net profits for the year to June 30 rose 20 per cent from M\$569.2m to M\$682.5m (US\$273.7m). Profits before tax climbed 31 per cent from M\$1.01bn to M\$1.33bn.

But some analysts questioned the sudden improvement in the results of the financial services division which included a contribution from the purchase of a majority stake in United Malaysian Banking Corp (UMBC), the country's fourth largest bank by asset value.

The group consolidated the bank's earnings from

November 11, which it regards as the effective date of the acquisition. But the company it bought the holding from, Datuk Keramat Holdings, has also consolidated the bank's earnings in its year to January 30 - meaning some earnings have been claimed by both groups, Datuk Keramat says it handed over its stake in April, after all the conditions of sale were met.

The financial services arm reported a rise in profit before interest and taxation from M\$22.6m to M\$38.5m. About 20 per cent of this came from UMBC.

The group did not say exactly how much of the bank's earnings had been consolidated. Analysts said if UMBC's earnings were consolidated from April, group pre-tax profits would have risen about 25 per cent, rather than the 31 per cent reported.

The company declined to comment on the accounting

question and analysts were divided on whether Sime Darby was justified in consolidating the bank's earnings from November. Investors would have to wait for a ruling by the Malaysian Institute of Accountants, the professional body.

Revenue rose from M\$2.39bn to M\$10.78bn and earnings per share climbed from 27.4 Malaysian cents to 30.4 cents. The group offered an unchanged annual gross dividend of 21 cents.

The heavy equipment and motor vehicle distribution division reported a jump in pre-tax profits from M\$80.5m to M\$146.6m because of buoyant demand from Malaysia's robust construction sector and strong car sales.

Sime Darby said its shares would be delisted from the London Stock Exchange from the close of business on November 15. The company, which declined to comment on the results, did not give a reason for the delisting.

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Creditanstalt

The Austrian government is under pressure to rethink its approach to the privatisation of Creditanstalt following a last-minute bid from a consortium of Austrian and international investors for its majority stake in Austria's second-biggest bank. Page 21

Trygg-Hansa

Trygg-Hansa, Sweden's second-largest insurance group, has made its first foray into the Nordic market after a period of heavy restructuring, acquiring Tell Forsikring of Denmark from Winterthur, the Swiss insurer. Page 21

Eurotunnel

Sir Alastair Morton is expected to announce today that Eurotunnel, the Anglo-French Channel tunnel operator, has made first-half losses of up to \$30m (\$46m) in what will probably be his last results statement as the group's co-chairman. Eurotunnel has given itself until the end of this month to produce an outline refinancing deal with its 235 banks over its \$3bn debts. Page 20

Principal Hotels

Principal Hotels, the UK group, has joined the queue of hotel companies seeking a stock market listing. It hopes to raise \$50m (\$78m) by way of a placing in October. Page 20

Emerging Markets

The government of Mexico is said to be seriously considering dedicating a monument to Mr Saddam Hussein, president of Iraq. Whenever things go wrong for Mexico Mr Hussein comes to the rescue by doing something dramatic, triggering a rise in oil prices and thereby Mexico, the world's third-largest producer, with windfall profits. Page 24

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COMPANIES AND FINANCE: UK

Eurotunnel's losses at £350m

By Geoff Dyer

Sir Alastair Morton is expected to announce today that Eurotunnel has made first-half losses of up to £350m (£346m) in what will probably be his last results statement as the group's co-chairman.

The figures, which have been brought forward by one month, will underline the precarious financial position of the Channel tunnel operator, despite its increasing share of the cross-channel

passenger market. The Anglo-French group, which has given itself until the end of this month to produce an outline refinancing deal with its banks, is unlikely to report significant progress in the talks today.

Negotiators say there is broad agreement on the structure of a settlement, however there are key issues to be resolved.

The deal is thought likely to include an initial debt-equity swap which would leave the banks owing less

than half of the equity. Another section of the debt is expected to be refinanced through the issue of convertible bonds, which the company can redeem if it meets certain revenue targets, but which leave open the prospect of the banks owning a majority stake at a future stage.

Any refinancing agreement would have to be approved by all of the 225 banks and by the group's shareholders. Eurotunnel has been in refinancing talks

with its 225 banks since September when it suspended interest payments on more than £8bn of debt. The French court, which has appointed two mediators to assist with the negotiations, has extended their mandates until the end of September.

Analysts are forecasting pre-tax losses of £300m-£350m for the first six months of the year, including notional interest payments on its debts.

The group has disclosed first-half revenue figures

which more than doubled to £223.7m. Passenger numbers have continued to rise over the summer, with the group now claiming a market share on the Dover-Calais route of 44 per cent.

Sir Alastair is to stand down as co-chairman once a refinancing plan has been agreed with the banks. He will be succeeded by Mr Robert Malpas, chairman of Cookson; Mr Patrick Ponsolle, the French co-chairman, will become executive chairman.

Rising stars can go down as well as up

Nicholas Denton questions the effectiveness of the growth of the cult of personality

The fund management industry, having developed a cult of personality around its top performers, must be wondering whether it has created a monster. Peter Young of Morgan Grenfell and Colin Armstrong of Jardine Fleming were marketed to investors like stars. To all appearances, they could do no wrong - until the past fortnight.

It has emerged that Young had engaged in a complex deception involving Luxembourg holding companies, and Armstrong had diverted profitable trades into his personal account.

Deutsche Bank, Morgan Grenfell's parent, has had to inject £180m (£200m) into funds managed by Young and faces compensation claims from investors. Young is to pay fines of £700,000 and compensation of £19.5m. Both firms are hugely embarrassed.

Two rogue fund managers do not make an epidemic, but the formerly sedate industry can no longer think itself immune from the scandals which have hit investment banks such as Barings and trading houses such as Sunamto.

And the star system, which fund management has borrowed from investment banking, is partly to blame.

The fund manager was until the 1980s the poor cousin of the investment banker. His role was to stump up the cash when a company decided to do a rights issue. The environment at work was sedate and the pay lower. No longer.

The prominence of fund managers is in part a function of the growing clout of the industry itself. In the 1980s came a growing acceptance that companies should be run in the interest, not of managers or employees, but of shareholders.

And these shareholders were more likely than before to be fund managers: individuals and company pension schemes have increasingly entrusted their investments to professional fund managers.

At the same time, growing competition in the industry has highlighted the importance of individuals. Fund management companies have tried to distinguish themselves in a crowded by emphasising a unique strategy, such as investing in fast growing technology stocks, as Peter Young's European Growth Trust did.

Moreover, marketing departments have found investors more ready to believe in the investment genius of an individual than

a committee. That is particularly true of retail investors, who piled into US mutual funds and UK unit trusts in record numbers last year.

But the actuarial consultants which advise pension funds on their fund managers also focus on personality because their research shows them that a new fund manager often transforms the portfolio. In the past five years in the UK, and for longer in the US, the qualifications and record of the star fund manager have loomed larger in marketing.

For all the good reasons for a star system in fund management, there are increasingly evident drawbacks. First, at the most trivial level, marketing takes time which could be better spent analysing investments.

Global Asset Management now bans its fund managers from any promotional events. Second, not all publicity is good publicity. Jeffrey Vinik, who resigned in May as captain of Fidelity's \$68bn Magellan Fund, first ran into trouble when he began talking too much to the press. He said he favoured Micron Technology while he had in fact sold shares in the company, alleged a lawsuit launched by Micron shareholders.

Third, fund managers tend to allow stars too much freedom. Colin Armstrong, chief investment officer of Jardine Fleming Investment Management, was almost completely unsupervised. His managers were loath to do anything that would upset the outstanding record of the Far East funds he managed. Armstrong felt free to engage in personal account trading on a scale which was an open secret in Hong Kong, where he worked.

And, fourth, the pressure to maintain a stellar reputation can push a fund manager over the edge. Peter Young's belief in high-technology companies turned into an obsession. A stockbroker close to Mr Young explains why his investment strategy, and behaviour, became increasingly bizarre: "When you are getting things right, you are a superstar. When things start going against you, it's another matter. There is massive pressure on these guys to perform. Peter has clearly been under a huge amount of strain."

The growth of star fund managers such as Mr Young may be a salutary warning to the industry that the cult of personality has gone far enough. But it will be hard to rein it back. After the suspension of the European Growth Trust was lifted, Morgan Grenfell's first action was to build up Stuart Mitchell, Mr Young's successor.

Wickes profits were overstated by £50m

By Ross Tieman

Profits at Wickes, the DIY retailer, have been overstated by some £50m (£78m) during the past three years, about £20m more than previously thought.

Discussions with the company's suppliers, allied to a joint investigation by Price Waterhouse and Linklaters & Paines, are gradually revealing the extent of accounting inaccuracies.

However, sales in the company's 162 stores are running ahead of last year, and directors are confident it will survive, albeit in a slimmed-down form.

Advisers are understood to believe that a rights issue to raise about £30m, perhaps allied to disposal of overseas operations, could put the

company back on a sound financial footing. That would enable trading to resume in the company's shares which were suspended on June 25 at 6p.

It is now clear that profits were seriously overstated in 1994 and 1995, and that smaller mis-statements were made in 1993 and 1992. The problems arise from the treatment of rebates provided by suppliers.

But no steps can be taken to secure the future of the company until the full extent of the profit shortfall has been established.

Talks are underway with 40 of Wickes's 160 suppliers. These are expected to be concluded by the end of the month, when the findings of the Price Waterhouse/Linklaters inquiry are expected.

That report will form the basis of an announcement to shareholders, and pave the way for the company to open talks with its bankers about a refinancing package.

Efforts to recruit new directors to the board are already well advanced. Mr Bill Hoskins, formerly of Laporte, has been appointed as finance director.

Heidrick & Struggles, the headhunter, has been retained to find a chief executive to replace Mr Henry Sweetbaum, who resigned on June 26.

The company is also seeking non-executive directors with retail experience. Two could be appointed within weeks. Meanwhile Mr Michael von Brentano, Wickes's chairman, and Mr Hoskins have begun to attack costs.

Flotation may value Principal Hotels at £100m

By Scheharazade Daneshkhu

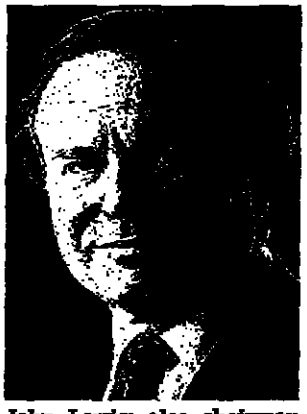
Principal Hotels, the Harrogate-based group, has joined the queue of hotel companies seeking a listing. It hopes to raise £50m in a float expected to value it at £100m (£150m) via a placing in October.

Mr John Lewis, executive chairman, is also chairman of Cliveden, the luxury hotel run in the stately home, which came to the market this year in a £7m flotation. Other hotel new issues this year include Macdonald Hotels, Millennium & Copthorne and Jarvis Hotels.

Thistle, the UK's second largest hotel company, is to publish its prospectus on Wednesday, in a flotation expected to value the company at £200m-£250m.

Principal, which has 21 hotels in the three and four star market, made operating profits of £8.1m in the year to October on turnover of £42.6m. HSBC James Capel, the company's brokers, forecast operating profits of £11.5m on sales of £50.5m.

Mr Lewis led a management buy-in of the group in 1994, two years after the company went into receivership. He said Principal needed capital to expand and



John Lewis, also chairman of Cliveden

funds raised would also reduce debt. Principal has borrowings of £36m.

He believed the group differed from other hotel companies because of the type of properties it owned. "Most people are tired of going to bedroom factories; we have developed a unique portfolio of classic period hotels."

Average occupancy was 67 per cent last year and the average achieved room rate was £38. James Capel is forecasting average occupancy rates of 71 per cent this year and an average room rate of £40.7. Deutsche Morgan Grenfell is sponsor to the flotation.

The DIY way to survive

Ross Tieman analyses the task facing Michael von Brentano in rescuing the company

When Mr Michael von Brentano retired at the age of 65 in January, he had no idea of what lay ahead. Six months later, the former vice-chairman of BSW found himself landed with the job of orchestrating the rescue of Wickes, a leading DIY retailer.

Mr Henry Sweetbaum, Wickes chairman and chief executive, resigned on June 26 after a stormy day-long board meeting to discuss discrepancies which had been uncovered in the company's accounts. Mr von Brentano, a non-executive, was elected to the chairman's seat.

He had only two executive directors to assist: Mr Stuart Stradling, Wickes finance director, and Mr Michael Corner, the head of administration and property.

They have also recruited a new finance director, Mr Bill Hoskins, formerly of Laporte, and announced the closure of the company's head office in the West End of London, the first step in a

drive to cut costs. Working with accountants from Price Waterhouse and solicitors from Linklaters & Paines, Wickes has launched a gruelling round of negotiations with its 160 suppliers to establish the full extent of the profit shortfall.

Provisional estimates suggest this could be £50m (£78m), built up over the four years ended December 1995, once tax credits are taken into account.

Several approaches have been received from rival DIY chains interested in acquiring some or all of Wickes's 162 stores. But the directors are determined to avoid a fire sale at a knock-down price.

Evidence to date suggests that the core UK chain will probably be sufficiently profitable, once costs are cut, to carry on trading.

If that is the case, a large balance sheet write-down will be needed to account for the profit shortfall. The balance sheet will then have to be restored with a rights issue. Present indications

are that a sum of up to £30m could be required. Credit lines will also have to be renegotiated with Barclays and NatWest, leaders of the company's banking syndicate. The need for cash could be reduced by a sale of the company's operations in France, Belgium, South Africa and the United States.

But the company will have a stronger hand to maximise sale prices if it has the resources to carry on trading them for a time.

To do so it will also need a new chief executive, and new non-executives with retail experience. Combining all the pieces of the jigsaw to create a viable company with credible management will not be easy.

Wickes's board may yet receive an offer for the company that is just too good to reject. But whether they do or not, the shareholders already have cause to be grateful to a retired German banker and those within the company who have rallied to his cause.

Takeover Panel rules may be changed

By Ross Tieman

Takeover Panel rules may need to be amended so that marketmakers are obliged to disclose holdings of more than 1 per cent in bidding companies and their targets, believes the panel's director-general, Mr Alistair Defries.

Disclosure of holdings would improve the quality of information available to shareholders and make it impossible for corporate financiers and marketmakers in the same securities house to collude to assist a bidder.

"The introduction of greater disclosure would improve transparency and help to allay fears that the system is being abused," Mr Defries said.

"In my personal view, the very fact of the markets being better informed will help to allay fears of collusion."

Any move by the panel to introduce such stake disclosures would require the backing of the industry representatives, investors and City practitioners who make up its membership.

No such measures have yet been tabled. But the executive is conducting a review of the various code rules that apply to marketmakers generally. In June, it said that this review "may result in further amendments to the code in due course".

Mr Defries's remarks are certain to focus debate on an area which has been the subject of controversy in several recent bids. In one prominent case, during April, the Panel rejected a complaint by advisers to

group subsequently overwhelmed by a hostile £2.1bn bid from rival Rentokil. SBC Warburg was acting as adviser to Rentokil. During the course of the bid, its marketmaking arm sold its parcel of 27m shares, amounting to 2.5 per cent of BET's equity, to Salomon Brothers, which in turn sold 24m of them almost simultaneously through ABN Amro.

Roare Govett to an associate company of the bidder. Until the transactions occurred, the existence of the stake was unknown. Marketmakers often bet

on the outcome of a bid, in the hope of making a profit, by acquiring shares in the target company and going short of stock in the bidder.

The Takeover code insists that such positions are not used to benefit a party with which another part of the same firm is associated.

But Mr Defries believes that the best way to address concerns voiced by company directors about the impact would be to require marketmakers holding more than 1 per cent of the shares in a bidder or its target to disclose their holdings.

NAVPE
REPETITION OF SUMMARY ANNOUNCEMENT OF JULY 19th 1996 WITH NEW DATES INTERNATIONAL TENDER FOR THE NA.VI.PE. FREE ZONE OF PLATYIALI, ASTAKOS, AETIOAKARNANIA (GREECE) CONSISTING OF THE PORT AND THE MARITIME INDUSTRIAL AREA AT PLATYIALI, WESTERN GREECE (hereinafter "NA.VI.PE.")

NAVPE S.A., a subsidiary of the Hellenic Industrial Development Bank S.A. (E.T.V.A. S.A.), established at 87 Syngrou Avenue, Athens 11745, Greece, in its capacity as the agency for the development and management of NAVPE, hereby

ANNOUNCES

an International Tender with Negotiated Procedure for the establishment of NAVPE - users at NAV.VI.PE. and/or of a Manager for the Port through the submission of binding Offers (category 27).

NA.VI.PE.

NA.VI.PE.'s Strategic Geographical location on the Western Mediterranean consists of a total area of about 168 ha., of which 98 ha are contiguous with the harbour and 65 ha are immediately adjacent. The port has six wharves / piers of 3,000 m. total length with depths ranging from 6 to 14 metres. Industrial, Processing, Commercial and Service companies may establish themselves at NA.VI.PE., which presents an important opportunity to develop productive enterprises, with the parallel availability of investment incentives and operating and export facilities.

AVAILABLE INCENTIVES

A. Regulatory

- NA.VI.PE. was founded further to Law 4458/85 and by virtue of Presidential Decree 133/90 is established as a Free Zone (Customs and Processing).
- EU Customs Legislation and the attendant EU regulations on Free Trade Zones apply. Duty/Tax Free imports of goods from third countries which, upon undergoing processing, may obtain EU Identity.
- NA.VI.PE. is treated as an "AREA" of site under Law 1852/90, entailing investment grants up to 45% interest subsidies for a maximum period of 8 years, Certain Tax allowances of up to 90%, increased depreciation rates, Training grants of up to 100% to train unskilled labour forces.
- Tax incentives regarding the relocation of companies and the purchase of sites.

B. Development

- NA.VI.PE. is included in the Industrial Enterprise Programme for the financing of supplemental investment in its basic infrastructure with a budget of GRD 4.2 billion (about US\$17.5 million), co-funded by European Union.

TERM OF THE ANNOUNCEMENT

This Announcement is addressed to parties interested in establishment at, partial or exclusive use of NA.VI.PE. and / or management of the port. Interested parties may apply for a copy of the Information Memorandum which will be available, together with accompanying documentation, from one of the addresses provided below against payment of GRD 20,000 or of US\$ 85.00.

Binding Offers regarding investment proposals and business activities at NAVPE, accompanied by a Letter of Guarantee the terms of which are indicated in the Information Memorandum, instead of being submitted on Monday 30th September 1996 should now be submitted between 10:00 and 12:00 hours on Tuesday 29th October 1996 at NAVPE S.A.'s offices.

This postponement was decided in response to numerous requests from interested parties for additional time in which to prepare their proposals.

Informative material and evaluation criteria as well as requirements regarding the language of the offers various elements are included in the Information Memorandum.

Interested parties may visit NA.VI.PE. after consultation with NAVPE S.A. or its Adviser Eurofin S.A.

The information seminar, initially arranged for 13 September 1996, will take place on October 11th 1996 in Athens.

The date of despatch of the Repetition of the Summary Announcement With New Dates to the Official Journal of the European Communities is 3rd September 1996.

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In accordance with the terms and conditions of the Notes, notice is hereby given that for the Interest Period from 9th September, 1996 to 10th March, 1997 the Notes will carry an Interest Rate of 6.4875 per cent per annum. The Interest Amount payable on the Interest Payment Date which will be 10th March, 1997 is U.S. \$32,797.92 for each Note of U.S. \$1,000,000.

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Agent: Bank

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FAX: (201) 3225241 - TELEX 210733 ATRA GR
Contact Name: Mr John Maropoulos/Ms Athina Dessayyl

ATHENS STOCK EXCHANGE Aug 30th - Sep 6th 1996		GREECE	
AGE INDEX	83.32	PER (per 100 shares)	11.4/2.1
%Chg (EURO)	-3.27	PERGROWTH (%) 8%	11.5
Yearly High	108.92	PERGROWTH (%) 1996	0.9
Yearly Low	67.08	PERGROWTH (%) 1995	12.70
WEBSYVOL (USD m)	135.15	PERV (%)	13.11
%Chg (Fw. Wk)	-0.05	PERV (%)	237.04
1 Yr Avg. (USD m)	150.12	Div. Yield (%) 86/95a	5.6/4.5
		A&E Market Capitalisation - 8/9/96 (USD bn)	24.74
		POs & Rights Issues (n USD m) Jan 1 1995-Sep 6 '96	578.44

The Financial Times plans to publish a Survey on

Mexico

on Monday, September 23.

The survey will look at the country's economy, politics, financial markets, foreign policy and more. For more information on advertising opportunities in this survey, please contact: Michael Geach in New York: Tel: (212) 688-6900 Fax: (212) 688-8229 or Juan Martinez Dugay in Mexico: Tel: (525) 395-5888 Fax: (525) 395-4985 or your usual Financial Times representative.

FT Surveys

معلومات الاصل

COMPANIES AND FINANCE

NEWS DIGEST

IBM to launch new mainframes

International Business Machines will tomorrow launch a new generation of high-performance mainframe computers that analysts predict could boost significantly its future earnings. IBM's share price rose \$2 to close at \$114 on Friday, following positive reports from Wall Street analysts and industry consultants briefed by IBM who see the announcement as the company's most important product introduction this year.

Long regarded as the dinosaurs of the computer industry, mainframe computers are winning a new lease of life with the introduction of CMOS (complementary metal oxide semiconductor) technology that shrinks their cost and size, while boosting performance.

The new computers, called GS for Generation 3, bring low-cost CMOS technology to the high end of IBM's mainframe computer product line - which represents about 90 per cent of mainframe installations - for the first time. Although competitors such as Amdeh and Hitachi have announced CMOS-based mainframes, they have yet to begin shipments.

Profit margins on the new models will be "spectacular", says Mr John Jones of Salomon Brothers. Reduced manufacturing costs will boost gross margins to well above 60 per cent, he calculates. After more than a decade of decline, IBM's mainframe computer revenues should rise by 3 per cent this year to \$8.7bn, predicts Mr Bob Djurdjevic, president of Amex Research, a market research company.

Compaq offers router

Compaq Computer, the world's largest manufacturer of personal computers, will today extend its push into the market for inter-networking communications products by launching a low-cost router aimed at small and medium-sized businesses.

Routers - used extensively within corporate networks - ensure data are transmitted efficiently between networks or remote offices and are one of the fastest growing segments of the network equipment and Internet market. The new router, dubbed the "Netelligent 8500", was developed in conjunction with Cisco, the US-based inter-networking equipment market leader.

Digital targets business users

Digital Equipment, which has been struggling to improve the performance of its personal computer operations, will today launch several new PCs and related products aimed at business users. The products include desktop models based on Intel's latest Pentium Pro microprocessors as well as new laptop computers.

Delhaize ahead at midway

Delhaize "Le Lion", the Belgian food retailer with extensive interests in the US, reported a 21.8 per cent increase in first-half net profits to FF1.97bn (\$65m). Without unfavourable currency movements, it forecast a "significant increase" in full-year profits for 1996. That compares with a decline in profits last year, from FF4bn to FF3.8bn, caused partly by currency movements. But it warned the second-half growth rate was unlikely to equal that in the first half. Turnover increased 10.9 per cent from FF172.6bn to FF191.3bn.

Borealis in US deal

Borealis, one of Europe's largest producers of plastics, has agreed the chemical industry's first pan-European distribution deal worth \$155m a year, with Ashland Chemicals of the US. Ashland is the largest distributor of chemicals and plastics in North America. The company will take on more than a third of Borealis's customers - some 1,500 plastics processors. Borealis, a joint venture between Norway's Statoil and Finland's Neste, said the handover of its smaller customers would generate significant savings. It would continue to deal directly with its 2,800 largest customers.

Westfield goes it alone

Westfield Holdings, a big Australian property group, and the US-based Airport Group Australia, are to abandon their consortium set up to bid for Australia's airports, which are about to be privatised. Westfield said it had decided to proceed independently, as a result of changed market conditions and the fact that Sydney airport would not be part of the first tranche. AGA added that it remained committed to pursuing the first group of airports to be auctioned - which comprise Melbourne, Brisbane and Perth.

Hafter plans UBS appeal

Mr Peter Hafter, a board member of BK Vision, said he would appeal against the Zurich commercial court ruling which upheld Union Bank of Switzerland's November 1994 EGM decision on the creation of single share structure. Mr Hafter plans to lodge appeals at the Zurich and Swiss federal appellate courts. BK Vision said Mr Hafter was acting on his own and it had yet to decide whether it would appeal the ruling.

CORRECTION

Bank of China

Friday's item on the establishment of a UK merchant bank by the Bank of China stated that the chairman of the new bank would be Mr Wang Xuebing, President of the Bank of China. Mr Wang is to be chairman of the holding company which will own the bank. Mr C.G. Wu will chair the bank itself.

Last-minute offer for Creditanstalt

By William Hall in Zurich

The Austrian government is under pressure to rethink its approach to the privatisation of Creditanstalt following a last-minute bid from a loosely-knit consortium of Austrian and international investors for its majority stake in Austria's second-biggest bank.

The consortium, led by EA-Generali, the Austrian subsidiary of an Italian insurer, lodged its bid for the stake on Friday evening, only hours before the extended deadline. The consortium, which includes

Banca Commerciale Italiana and Commerzbank of Germany, plus several regional Austrian banks with ties to Creditanstalt, has not disclosed the value of its bid, nor whether its offer is for all, or only part of the government's 70 per cent voting stake.

The government will review the bid with the help of J.P. Morgan, its financial adviser. However, Mr Viktor Klima, the Austrian finance minister, told Austrian TV on Saturday that he wanted more information on the participation of individual members of the bidding group.

Plans to privatise Creditanstalt, which have been dragging on for more than five years, suffered a serious setback on Friday when First Austrian, Austria's oldest savings bank, dropped out of the bidding consortium only hours before the final deadline.

The presence of First Austrian, which intended to combine its business with Creditanstalt's, provided the only real strategic logic for a consortium bid which some observers see as a thinly-disguised attempt to preserve the management independence of Creditanstalt.

Several foreign banks were discouraged from bidding after it became clear that the Austrian business establishment was keen to ensure control of Creditanstalt remained in Austrian hands.

As a result, the only public offer is from the current bidding consortium. In early 1995 it offered Sch9bn (\$365m), or about Sch680 a share, for two-thirds of the government's ordinary shares. It subsequently made another offer, but the details were never disclosed.

The government has always made clear it wants to sell its entire stake for

cash. Last year J.P. Morgan, at the government's request, estimated that its stake was worth about Sch680 a share, which could rise to about Sch910 a share if account was taken of the premium for control. On Friday, Creditanstalt's ordinary shares were suspended at Sch661, valuing the government's stake at Sch13.2bn.

First Austrian's decision to drop out of the consortium, because of a failure to agree with its partners on its future role, adds to the belief that the remaining consortium partners are unlikely to want to buy the entire stake.

Australian SE details plans for shake-up

By Nikki Tait in Sydney

The Australian Stock Exchange yesterday released details of its "demutualisation" plan, with Mr Maurice Newman, the exchange's chairman, making a strong plea that the structural change would best allow the exchange to meet future competitive pressures.

Pointing to the likely expansion of alternative share trading mechanisms, such as the Internet, and the growth in trading Australian shares on overseas exchanges, he said "demutualisation seems to us to answer some of the problems we have been facing".

"The perception that the ASX is a club is not helpful," he added.

Under the proposed changes, the nexus between ownership of a stake in the ASX and the ability to trade shares would be broken. Stockbrokers would simply be registered by the ASX - which would check their standing - while the exchange would be owned by, and answerable to, shareholders (who might or might not be brokers).

The Australian exchange is not the first to demutualise, but it would be the first to seek an active, liquid market in its shares - and possibly a listing on its own exchange if regulatory issues can be resolved. Demutualisation will be put to its members on October 18, and 75 per cent will need to be in favour for the idea to be put into practice. This would probably not happen until 1998, given the need for legislation.

Trygg-Hansa acquires Winterthur Danish unit

By Greg McIvor in Stockholm

Trygg-Hansa, Sweden's second-largest insurance group, has made its first foray into the Nordic market after a period of heavy restructuring, acquiring Tell Forsikring of Denmark from Winterthur, the Swiss insurer.

The Swedish company said the purchase of Tell, a small telephone-based insurance business, would consolidate its presence in the Scandinavian region. Financial details were not disclosed.

The purchase reflects a growing emphasis on telephone-based insurance ser-

vice. Trygg predicted the market was set to undergo extensive restructuring as financial services companies strove to cut overheads.

"The industry is suffering from high costs and overcapacity," said Ms Inge Lundberg, Trygg's head of investor relations. "This is the first step to reinforce our position in the Nordic market."

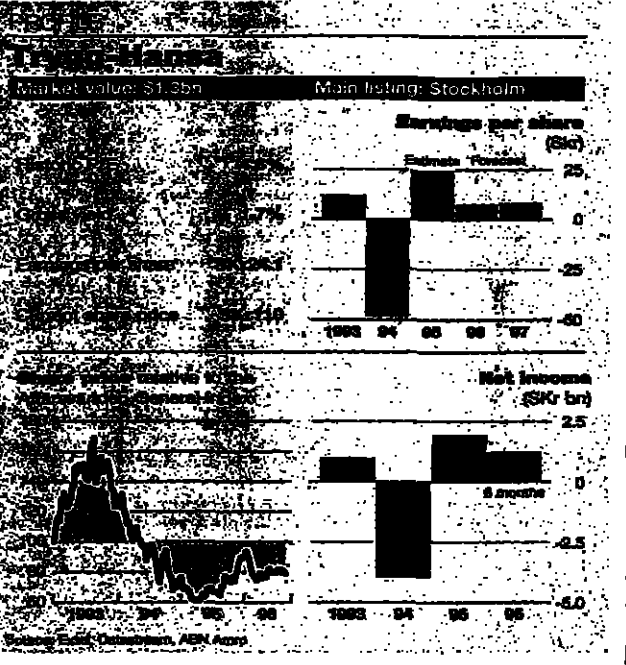
Tell, founded in 1982, has 40,000 customers and annual sales of Dkr100m (\$17.4m) but has yet to make a profit. Ms Lundberg said Trygg was confident the losses could be reversed within "a very short time".

Trygg has undergone a

transformation following the appointment of Mr Lars Thunell as chief executive two years ago. It has cut costs and refocused on core operations in life assurance, casualty insurance and financial services.

In April the group acquired Hansa Kindlustus, an Estonian insurer, in a swap deal with Sampo, the Finnish insurance group. The move was Trygg's first foreign venture since its disastrous engagement with Home Holdings, a US associate it entered in 1991.

Home chalked up losses to Trygg of about SKr5bn (\$752m) before it was sold to Zurich Insurance in 1995.



VW pitches Skoda against Asian competitors

By Helg Simonson in Mlada Boleslav

Skoda, the budget brand of Germany's Volkswagen cars group, has been given the role of spearheading the group's fight against cut-price Asian competition with its new Czech-built Octavia family car.

The vehicle, to be priced from DM22,960 (\$15,418) in Germany when sales start next year, will be the first European saloon to match Korean brands, such as Hyundai and Daewoo, on price and will undercut com-

parable Japanese models.

The competitive pricing of the Octavia, which will be built at a new DM500m facility at Skoda's Mlada Boleslav plant, stems from the Czech Republic's low wage costs and the fact that the model will share many parts with other Volkswagen group vehicles.

Reflecting the "platform strategy" of Mr Ferdinand Piech, Volkswagen's chairman, in which the group's range will be simplified to four basic engineering structures (platforms), the new car will share about 50 per

cent of its parts with the recently introduced Audi A3 hatchback and the fourth generation VW Golf, due next year.

The Octavia should also consolidate Skoda's financial recovery. The company, which is 70 per cent owned by VW, should break even this year after losing Kcl.61m (\$61m) in 1995 and is expected to show a healthy profit in 1997.

Production has risen strongly on the back of the revised Felicia hatchback and should reach a record 260,000 units this year. Out-

put should increase to about 340,000 units next year, of which some 65,000 will be Octavias. Production should reach about 400,000 cars a year by 1998-99, when the Octavia will have reached its targeted 90,000 capacity.

Mr Detlef Wittig, Skoda's sales and marketing director, said production could exceed 400,000 units a year by 2000, depending on squeezing further output from Mlada Boleslav and the development of present and planned foreign initiatives.

Skoda is investing DM10m to boost Felicia output at

Poznan in Poland to 25,000 units next year from about 16,000 in 1996. Felicia assembly will start this month at Minsk in Belarus and, from October, at Smolensk in Russia. The two new ventures should assemble about 3,000 Felicias each under licence at full tilt next year.

Mr Wittig said negotiations to start production were also at varying stages in India, Egypt and China. The Indian talks, with the Eicher group, could involve output of up to 60,000 Felicias and Octavias a year, he said.

AHP to sell foods business for \$1.3bn

By Richard Waters in New York

American Home Products announced an agreement to sell its foods business to Hicks Muse, a Dallas-based buy-out firm, for \$1.3bn, completing a four-month auction of the unit.

The disposal is likely to be the last by the US healthcare giant, according to one person close to the transaction. The company is seeking to reduce its borrowings and focus its resources on pharmaceuticals and healthcare businesses after its \$10bn acquisition of American Cyanamid two years ago.

The deal continues a string of buy-outs of US food businesses recently, including the \$8bn purchase of Borden by Kohlberg Kravis Roberts. These transactions reflect the generally strong cashflow of branded consumer goods companies, making them an attractive target for debt-heavy buy-outs, and the large amount of money that has been attracted into leveraged US investment funds recently.

AHP will receive about \$1.2bn in cash and retain a 20 per cent stake in the foods company, whose brands include Chef Boyardee, a well-known make of canned pasta, and Pam, a fat-free cooking oil. The company, which was advised by J.P. Morgan, recently sold its Kolynos oral health business for \$1.04bn.

The AHP foods group is in the midst of a recovery from a fall in sales during 1995. Its sales will reach \$1bn this year, Hicks Muse said, representing an increase of about a fifth from the previous year. However, its generally mature brands have shown little overall increase in recent years.

Mr Tom Hicks, a Hicks Muse founder, said the firm planned to expand the foods business again, both by developing its existing brands and buying new ones. The buy-out would allow it to operate in "a more entrepreneurial fashion" outside AHP, he added.

Some \$90m of the purchase price is in the form of equity, Mr Hicks said.

Valeo

VALEO HALF-YEAR RESULTS: STRONG GROWTH IN SALES AND RESULTS

Valeo's Board of Directors meeting on September 5, 1996 reviewed the Group's consolidated results for the first half of 1996.

In the first half of 1996, the Group exceeded its sales and operating margins growth targets. Sales rose 16% and operating income 22%.

Valeo's international sales made another leap forward, rising 28% during the first half and accounting for 67% of Group sales against 61% in 1995. Sales weakened in France but have been recovering since the beginning of the second half.

Half year net income amounted to FF 686 million, that is 4.4% of sales. It increased by 31%, excluding the extraordinary capital gain of FF 130 million made in the first half of 1995, and despite a higher taxation charge.

• Sales + 16 %
• Operating income + 22 %

The Group is pursuing its growth strategy at a sustained pace by reducing costs, constantly improving quality, globalization and innovation. In 1995, Valeo will be dedicating FF 2.3 billion to new investments in its plants and FF 1.7 billion to research and development projects to satisfy the growing demands of its customers. Operating margins for the year will enable these projects to be self-financed.

Consolidated financial data (in FF millions)	1st half 1996	1st half 1995	% change 1996/1995
Net sales and revenues	15,060	13,020	+ 15.7 %
Operating income	1,020	834	+ 22.3 %
Operating income / sales	6.8 %	6.4 %	
Net income	656	629	+ 4.3 %
Net income / sales	4.4 %	4.8 %	
Earnings per share (in FF)	9.5	9.1	+ 3.6 %
	at June 30 1996	at June 30 1995	
Shareholders' equity	10,788	9,607	+ 12.0 %
Permanent employees	28,080	27,500	+ 2.0 %

New facilities were set up or stakes acquired in companies in Italy, Poland, Argentina, India and Canada during the first half.

The start of the second half has been marked by strong activity on all markets. Barring a downturn, Valeo should achieve its sales target of FF 28.5 billion in 1996.

CREDITANSTALT

ING BANK
 उभरती अर्थ-व्यवस्थाओं और
 दुनी बाजारों में मात्रि बलन
ING BARINGS

FINANCIAL TIMES
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ING BANK
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 and Capital Markets
ING BARINGS

Global Investor / Peter Martin

Bonds await French budget

France's 1997 budget, due by September 18, is the government's last chance of reconciling the top chart alongside with the lower ones.

Though French equities lag behind their German equivalents, and economic growth - on a quarterly basis, at least - is similarly divergent, the bond markets continue to signal their firm belief in the future equivalence of inflation, currency values and government creditworthiness in the two countries.

Behind that belief lies, of course, the conviction that currency union is unstoppable, at least for these two founding sponsors of European union. Yet if next week's budget does not achieve its aim of making

French participation in a single currency credible, the bond market's confidence may at last be shaken, as the currency market's has already been.

The budgetary test still lies ahead, but the signs last week were unpromising.

Preliminary GDP figures, which showed the economy shrinking in the second quarter, underlined the poor state of French confidence.

Though consumer expenditure is holding up reasonably well, business investment is particularly weak.

To a British observer, the mood is uncannily like that which preceded sterling's enforced departure from the exchange rate mechanism of the European Monetary System almost exactly four years ago.

Business people, in France now as in Britain then, remain committed to the governments economic objectives. But they are voting with their feet, or - more accurately - with their investment plans.

Similar moods need not, of course, have similar outcomes.

The political stakes in France are far higher, for one thing: the single currency has long been an unshakable part of the establishment consensus.

None the less, against this background, the French government dare not impose a draconian squeeze on government spending and a sharp rise in tax receipts in order to meet the Maastricht criteria.

The compromise, indicated

last week, is to try to restore confidence by promises of lower income tax while tightening fiscal pressures slightly and juggling the government's books with a one-off transfer from France Telecom's pension fund.

The tax plans for next year, rushed out last Thursday, do indeed provide for an immediate reduction in income tax.

But this is largely offset by rises in other taxes.

Coupled with spending cuts, the net effect, says Morgan Stanley's Paris economist Eric Chaney, is mildly restrictive - but perhaps by only FF45bn (\$8.97bn) or 0.64 per cent of GDP, less than markets have so far discounted.

"As a result," he says, "the budget deficit target for next

year [3 per cent of GDP] would only buy its credibility from the France Telecom non-recurrent transfer (0.36 per cent of GDP on a net basis)."

Just how much credibility the France Telecom transfer can provide is open to question, however.

For the finance ministry to be reduced to such a slight hand a good 18 months before the Maastricht test must be passed underlines the hurdles that lie ahead in meeting the criteria laid down in the treaty.

And the apparent relative improvement in German growth prospects raise the stakes further. Arguably, what counts is not how close to the formal deficit and debt criteria France comes, but how near it is to matching

Exchange rates in local currency to £100

	1996	1995	1994	1993	1992
US	1.60	1.61	1.60	1.60	1.61
DM	1.93	1.93	1.93	1.93	1.93
Yen	160	160	160	160	160
FF	166.67	166.67	166.67	166.67	166.67
Scd	136.48	136.48	136.48	136.48	136.48
Sfr	2.00	2.00	2.00	2.00	2.00
HK\$	7.75	7.75	7.75	7.75	7.75
NT\$	36.36	36.36	36.36	36.36	36.36
₹	83.33	83.33	83.33	83.33	83.33
₱	48.15	48.15	48.15	48.15	48.15
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₹	1.00	1.00	1.00	1.00	1.00
₱	48.15	48.15	48.15	48.15	48.15
₪	1.80	1.80	1.80	1.80	1.80
₹					

MARKETS: This Week

Fed-watching kept the Wall Street markets occupied all last week, and this week seems certain to be the same. Most analysts believe interest rates will be tightened within a matter of months...



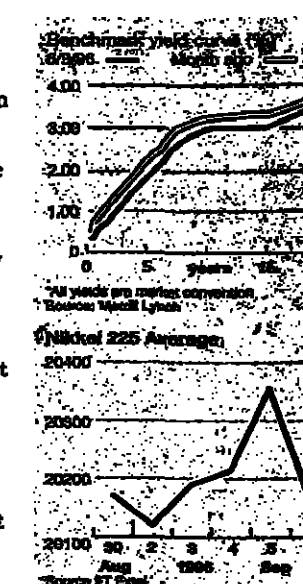
The results season gathers pace this week, providing UK investors with an insight into the outlook for corporate earnings over the remainder of 1996 and early in 1997.



For several months now, the DAX share index has moved sideways at just above the 2,500 level without much volatility, and the little movement that has occurred was usually prompted by the release of US economic data, mostly jobs figures.



Although the Tokyo stock market last week reacted negatively to reports of a possible lower house election next month, some analysts point out that it would have minimal effects on economic policy and little impact on the financial markets.



Last week's unemployment figures, released on Friday, were close enough to expectations to dampen speculation of an immediate rate rise, but dealers thought of nothing else all week...

There are a few other blots on the horizon. Companies with disappointing results to announce tend to tell the market about it as soon as they can, with the result that September, the final month of a quarter, often sees more than its fair share of bad corporate news...

A big bid might succeed in taking the equity market's mind off economic matters, but the recent weeks of speculation have produced little in the way of actual offers - except for Booker's £264m takeover of cash-and-carry group Nurdin & Peacock, announced last week.

Expectations of an increase in US interest rates combined with expectations for low and possibly falling German rates seem to dampen the mood. Forecasts for the domestic economy remain gloom, with a few bright spots.

Among corporates, Lufthansa had a rough week after the cartel office began investigating the pricing structure of one of its profitable domestic routes. Over the weekend, VW hit the headlines, as Mr Ferdinand Piëch, chairman, promised to increase the return on sales more than 10-fold and to become Europe's most successful car maker by the end of the decade.

Mr Jason James, strategist at James Capel in Tokyo, forecasts a budget of about ¥3,000bn, with actual spending of ¥1,000bn to ¥1,500bn. Since investors are unlikely to expect the package to provide a large boost to growth, the impact on the economy of losing this spending would be marginal, while the passage of such a package is unlikely to generate significant excitement, he says.

Meanwhile, although politicians' comments earlier this year that low interest rates were hurting pensioners worried some participants and created volatility on the bond market, the Bank of Japan is unlikely to raise rates ahead of the election. Pensioners are not an organised constituency and many are strong supporters of the LDP. They are unlikely to switch their vote simply because of a promise to lift interest rates.

Prices worry cobalt industry

Combating price volatility will be one of the principal themes of a three-day cobalt industry conference beginning in New York today. Speakers representing producers, users (chiefly manufacturers of superalloys for the aerospace and chemical engineering industries), traders, recyclers and mine developers from around the world will discuss the issues, the strategic alliances and the market volatility problems impacting the structure of the industry...

from recent 3%-year lows, but at about \$25 a pound, they remain well below the highs of around \$33 at the start of the year. Metal Bulletin magazine reported last month that minor metals traders were deluging the market with bullish projections in an attempt to lift the price of the metal back to \$25 a pound. Macquarie Equities, part of the Australian banking group, said in a recent report it was widely believed that an important factor in the bear market had been aggressive 'shorting' by two large trading houses.

The countdown to the French budget and a continued heavy flow of corporate results are likely starting points for sentiment on the Paris bourse this week. The countdown to the autumn budget begins in earnest with initial details due for release tomorrow, ahead of the official presentation on September 18. Thanks partly to corporate profit news, shares prices last week largely ignored the shaky franc and disappointing news about economic growth. Investors will be hoping that more of the same can prevail this time.

PARIS

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AMSTERDAM

The news flow from Amsterdam is not scheduled to show any real pick-up. August inflation data is due, and next week's budget statement is going to be an obvious talking point. The budget, due on September 17, is clearly the immediate key economic focus. The main concern for the company sector is fears of an increase in tobacco and fuel duties.

ZURICH

After a half-year reporting season that has, so far, largely failed to live up to, admittedly high, expectations, it is the turn of Nestlé to step into the spotlight on Friday, writes Michael Morgan. Retail and transport stocks were out of sort last week, as were financials. Pharmaceuticals were mixed as Roche responded badly to a Merrill Lynch downgrade and further switching, particularly by US investors into the Novartis partners, Ciba and Sanofi.

HONG KONG

Trading is expected to be dull this week with the ever-present prospect of rising interest rates dampening activity, writes Louise Lucas. US employment data, released after the Hong Kong close on Friday, will set the tone for trading today, with the territory likely to follow the lead set by Wall Street. Also suppressing investor appetite is speculation over corporate cash calls. Recent share placements have prompted concern about over-supply. Best bets among brokers suggest the benchmark Hang Seng index may continue to drift lower. Property stocks should move back into focus ahead of the results season starting later this month. Recently, investors have been slightly encouraged by higher than expected bids at government land auctions.

STOCKHOLM

After last week's rise in the August Purchasing Managers' Index, investors will be eager for more evidence of a cyclical upswing within the economy.

Dollar likely to stay soft until Fed rates decision

After spending much of last week waiting for US employment data, this week foreign exchange dealers may find themselves gripped by speculation over the Federal Reserve's next move on interest rates. But that will not be until the Federal Open Market Committee's meeting on September 24, meaning the US dollar is likely to remain soft.

Instead, market interest this week will be on the remaining data the FOMC will have available when it meets. These include July consumer credit figures on Monday, the Beige Book on US economic conditions on Wednesday, August consumer and producer prices on Thursday and August retail sales on Friday. The inflation figures due at the end of the week could be a key for bond prices, and in the FOMC's deliberations over a possible rate rise.

Weakness in the dollar's level, especially against the D-Mark, could spell trouble for the French franc. In France the focus remains on the government's budget. Mr Alain Juppé, the prime minister, unveiled his tax plans last week, and more details will emerge this week. Perhaps more closely watched will be the reaction of the French trade unions. Thoughts of a repeat of last year's strikes could drive down the franc, and weaken hopes of the country qualifying for European membership of the union. So far the reaction of the unions has been mixed, but one London analyst noted the lack of aggressive comment from the French rail unions, the source of much disruption in 1996.

Germany sees the final parliamentary vote on the 1997 budget on Friday, with a chance of further tax increases to allow it to pass under the 3 per cent budget deficit criteria for European monetary union under the Maastricht Treaty. Inflation data in the UK this week could attract some interest, especially the August retail price index to be published on Thursday.

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FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, September 6, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Table with columns for currency codes (e.g., US \$, D-MARK, £, YEN) and various international currencies, listing their exchange rates.

CROSS BORDER M&A DEALS

Table with columns: BEDDER/INVESTOR, TARGET, SECTOR, VALUE, COMMENT. Lists various M&A deals between companies from different countries.

Advertisement for U.S. \$65,000,000 Floating Rate Notes Due 2006, issued by CS First Boston and Banque Nationale de Paris. Includes a coat of arms and contact information.

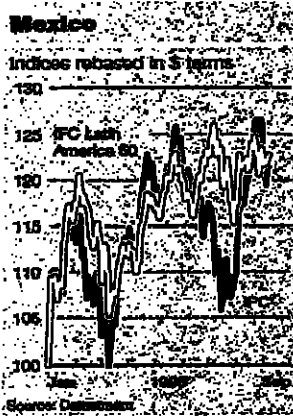
MARKETS: This Week

EMERGING MARKETS By Leslie Crawford

Mexican recovery in fast lane

The government of Mexico is said to be giving serious consideration to a proposal to dedicate a monument to Mr Saddam Hussein, leader of Iraq. Whenever things go wrong for Mexico - the recent rise in US bond yields, for example, or when guerrillas burst on to the scene - Mr Hussein comes to the rescue by doing something dramatic. This triggers a rise in oil prices and shows a windfall profits on Mexico, the world's third-largest oil producer.

cent year-on-year, and the sector now accounts for almost one-third of gross domestic product. "The strength of the export sector has cushioned what would otherwise have been a brutal recession," says Mr Paulo Leme, chief economist at Goldman Sachs in New York. A benign external environment helped fast-forward the recovery, he says, but equally important was the trade liberalisation and investment which took place before the country's financial crisis.



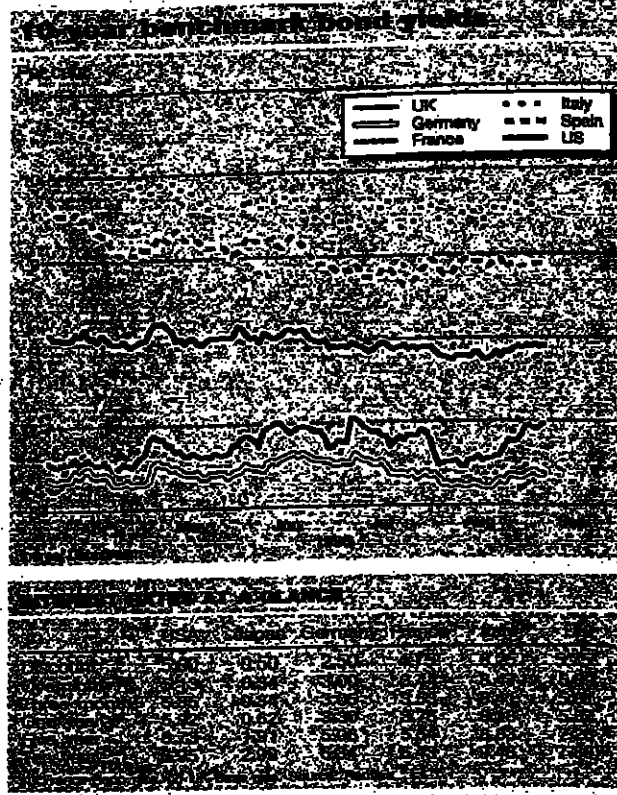
Mexico: IPC index rebounded in 1996. Source: INEGI/Comptroller General

investment - \$3.1bn in the first half of 1996 - to continue despite modestly higher returns in the US. A rise in Mexican interest rates would almost certainly follow any move in the US, but is not expected to choke off domestic growth. Mr Vera expects the Mexican peso to begin to depreciate more rapidly with a rise in US interest rates, ending the year at 8.1 pesos to the dollar against 7.55 pesos on Friday, and forecasts the IPC stock market index to rise from 3,340 on Friday to 4,150 by the year-end.

Liffe takes pole position in euro contracts race

As European monetary union becomes a more tangible and realistic prospect, competition between the continent's three biggest futures exchanges - in London, Paris and Frankfurt - is heating up. The prospective rationalisation of Europe's interest rate futures market figured high on the agenda at last week's annual derivatives conference at Birgenstock in Switzerland.

etary union process could complicate matters: the timing of the conversion of debt denominated in existing currencies into euros, a process known as redenomination. After last year's European summit in Madrid, it had been assumed that from 1999 the stock of debt denominated in existing currencies would co-exist alongside new euro-denominated until 2002, when the existing currencies are scheduled to disappear.



UK, Germany, France, Italy, Spain, US: Performance from 1990 to 1996. Source: FT

ING BARING SECURITIES EMERGING MARKETS INDICES table with columns for Index, 6/9/96, Week on week movement, Month on month movement, and Year to date movement.

Liffe's position has been strengthened this year by the final collapse of the alliance between the Deutsche Terminbörse of Germany and the Maitif of France. Last month the two exchanges quietly acknowledged that the DTB, now part of the broader Deutsche Börse, was assuming responsibility from Maitif for servicing its Paris-based clients, who had originally started trading DTB contracts in 1994 as part of the link-up between the two exchanges.

But he is anxious to have euro products in place from the start of 1999. It will be "an enormous advantage for exchanges to get large critical mass from day one. We are in a business where to be first is important. The creation of liquidity can have a snowball effect," he said. The Maitif has made provision for contracts denominated in existing EU currencies which have back months beyond January 1999 to be settled in euros.

SHAREHOLDER INFORMATION eif Net income increases by 24% 1996 First half results

A new step in the progression towards our goals. Results and principal comments by sector. Exploration and Production, Refining Marketing and Trading, Chemicals, Health.

NEW INTERNATIONAL BOND ISSUES table with columns for Issuer, Amount, Maturity, Coupon, Price, Yield, Launch, and Back-taker.

SAMANTHA INVESTMENTS PLC £15 million Subordinated Floating Rate Notes Due 2001

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Les Echos The FT can help you reach additional business readers in France.

Merrill Lynch & Co., Inc. £100,000,000 Floating Rate Notes due 2001

ABBAY NATIONAL TREASURY SERVICES PLC FRF 1,000,000,000 Guaranteed TEC 10 Indexed Floating Rate Notes due 2006

معلومات المصلي

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE DOLLAR. Table with columns for Country, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, Bank of America, JP Morgan.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR. Table with columns for Country, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, Bank of America, JP Morgan.

WORLD INTEREST RATES

MONEY RATES. Table with columns for Country, Term, Rate, and other financial indicators.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table showing exchange rates for various currencies including Australia, Hong Kong, India, Israel, Japan, etc.

FT GOLD MINES INDEX

Table showing gold mine indices for various regions like Africa, Asia, Europe, etc.

EURO CURRENCY INTEREST RATES

Table showing Euro currency interest rates for various terms and currencies.

UK INTEREST RATES

LONDON MONEY RATES

UK GILTS PRICES

Table showing UK interest rates, London money rates, and UK gilt prices.

FT GILTS TO WORLD CURRENCIES

UK INTEREST RATES

LONDON MONEY RATES

Table showing FT Gilts to World Currencies, UK interest rates, and London money rates.

LONDON RECENT ISSUES: EQUITIES

Table showing London recent issues in equities, including company names and prices.

THREE MONTH EURO DOLLAR

Table showing three-month Euro Dollar rates.

US TREASURY BILL FUTURES

Table showing US Treasury bill futures data.

RIGHTS OFFERS

Table showing rights offers for various companies.

BANK RETURN

BANKING DEPARTMENT

LIABILITIES

ASSETS

ISSUE DEPARTMENT

LIABILITIES

ASSETS

OTHER GOVERNMENT SECURITIES

OTHER SOURCES

OTHER GOVERNMENT SECURITIES

OTHER SOURCES

BASE LENDING RATES

ADAM & COMPANY

ALLIANCE TRUST BANK

ASB BANK

BANK OF AMERICA

BANK OF CALIFORNIA

BANK OF INDIA

BANK OF MEXICO

BANK OF NEW ZEALAND

BANK OF NORTHERN TERRITORIES

BANK OF SYDNEY

BANK OF WALES

BANK OF WEST INDIES

BANK OF YEMEN

BANK OF ZAMBIA

BANK OF ZIMBABWE

BANK OF AUSTRALIA

BANK OF CANADA

BANK OF CHINA

BANK OF HONG KONG

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BANK OF KOREA

BANK OF MALAYSIA

BANK OF NETHERLANDS

BANK OF NORWAY

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BANK OF PORTUGAL

BANK OF ROMANIA

BANK OF RUSSIA

BANK OF SWEDEN

BANK OF SWITZERLAND

BANK OF THAILAND

BANK OF TAIWAN

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MARKET-EYE

REUTERS 1000

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FUTURES - TAX FREE

OFFSHORE COMPANIES

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USD 250,000,000 Subordinated Floating Rate Notes Due 2002

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Interest Rate: 3.75% p.a.

Coupon Amount: USD 144.55 per USD 5,000 Note

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LONDON SHARE SERVICE

مكتبات الصحف

INV TRUSTS SPLIT CAPITAL - Cont.

Table listing investment trusts with columns for Name, Price, % Change, and Dividend Yield.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies with columns for Name, Price, % Change, and Dividend Yield.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies with columns for Name, Price, % Change, and Dividend Yield.

PROPERTY - Cont.

Table listing property companies with columns for Name, Price, % Change, and Dividend Yield.

TELECOMMUNICATIONS

Table listing telecommunications companies with columns for Name, Price, % Change, and Dividend Yield.

AM - Cont.

Table listing American companies with columns for Name, Price, % Change, and Dividend Yield.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts with columns for Name, Price, % Change, and Dividend Yield.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies with columns for Name, Price, % Change, and Dividend Yield.

PHARMACEUTICALS

Table listing pharmaceutical companies with columns for Name, Price, % Change, and Dividend Yield.

RETAILERS, FOOD

Table listing food retailers with columns for Name, Price, % Change, and Dividend Yield.

RETAILERS, GENERAL

Table listing general retailers with columns for Name, Price, % Change, and Dividend Yield.

TEXTILES & APPAREL

Table listing textiles and apparel companies with columns for Name, Price, % Change, and Dividend Yield.

AMERICANS

Table listing American companies with columns for Name, Price, % Change, and Dividend Yield.

CANADIANS

Table listing Canadian companies with columns for Name, Price, % Change, and Dividend Yield.

SOUTH AFRICANS

Table listing South African companies with columns for Name, Price, % Change, and Dividend Yield.

INVESTMENT COMPANIES

Table listing investment companies with columns for Name, Price, % Change, and Dividend Yield.

OIL, INTEGRATED

Table listing integrated oil companies with columns for Name, Price, % Change, and Dividend Yield.

PROPERTY - Cont.

Table listing property companies with columns for Name, Price, % Change, and Dividend Yield.

SUPPORT SERVICES

Table listing support services companies with columns for Name, Price, % Change, and Dividend Yield.

WATER

Table listing water companies with columns for Name, Price, % Change, and Dividend Yield.

AM

Table listing American companies with columns for Name, Price, % Change, and Dividend Yield.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing various offshore funds under Bermuda (SIB RECOGNISED) with columns for fund name, manager, and price.

BERMUDA (REGULATED)**

Table listing various offshore funds under Bermuda (REGULATED)** with columns for fund name, manager, and price.

GUERNSEY (SIB RECOGNISED)

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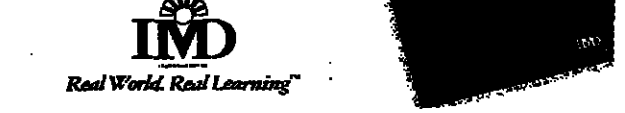


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IRELAND (REGULATED)**

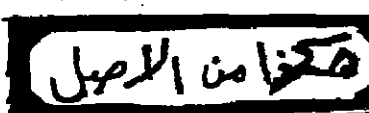
Table listing various offshore funds under Ireland (REGULATED)** with columns for fund name, manager, and price.

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معلومات الاصل

Offshore Funds and Insurances

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Main table containing fund names, descriptions, and prices. Columns include Fund Name, Description, and Price. Funds are categorized by region: Luxembourg (Regulated), Luxembourg (SIB Recognised), and Offshore Insurances.

LUXEMBOURG (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

OFFSHORE INSURANCES

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'NEW YORK STOCK EXCHANGE PRICES', 'NASDAQ LISTED STOCKS', and 'NASDAQ LISTED STOCKS'.

Advertisement for Hewlett-Packard featuring the text 'Vault ahead' and 'If the business decisions are yours, the computer system should be ours.' Includes the HP logo and website URL 'http://www.hp.com/go/computing'.

Handwritten Arabic text: 'معلومات العمل' (Work Information)

Continued on next page

NYSE PRICES

Table of NYSE stock prices with columns for stock name, price, and change. Includes sub-sections for 'Continued from previous page' and 'T'.

NASDAQ NATIONAL MARKET

Table of NASDAQ National Market stock prices with columns for stock name, price, and change. Includes sub-sections for 'Continued from previous page' and 'T'.

AMEX PRICES

Table of AMEX stock prices with columns for stock name, price, and change. Includes sub-sections for 'Continued from previous page' and 'T'.

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Advertisement for ISDN, DECT, GSM, and XSPS products. Includes text: 'Your own development failed? Your production line is waiting? Your customers are queuing? Take our technology!' and 'ISDN DECT GSM PRODUCTS XSPS'.

Table of AMEX stock prices with columns for stock name, price, and change. Includes sub-sections for 'Continued from previous page' and 'T'.

FT GUIDE TO THE WEEK

MONDAY 9

Ulster talks resume

Northern Ireland's multi-party talks resume, with London and Dublin anxious that substantial negotiations should start as soon as possible in the wake of the summer's increasingly bitter sectarian unrest between Protestants and Roman Catholics. An agenda for the talks has still to be agreed. Unionists are expected to press for the exclusion of the small fringe parties, which have been linked with paramilitary death threats against two recalcitrant loyalists. The moderate nationalist Social Democratic and Labour party is keen the issue should not be used by unionists as a pretext to delay the talks.

Spain in Nato upgrade plan

Plans to upgrade Spain's role in a new-look Nato will be discussed by Javier Solana, the alliance's secretary-general, in an official visit to his home country. Spain, like France, intends to participate fully in a new military organisation based on joint task forces. However, the change is vigorously opposed by the communist-led United Left party, which says it contravenes the terms of the country's 1986 referendum on Nato membership. The government of José María Aznar says it will put the issue to parliament this autumn.

Andreotti in the dock

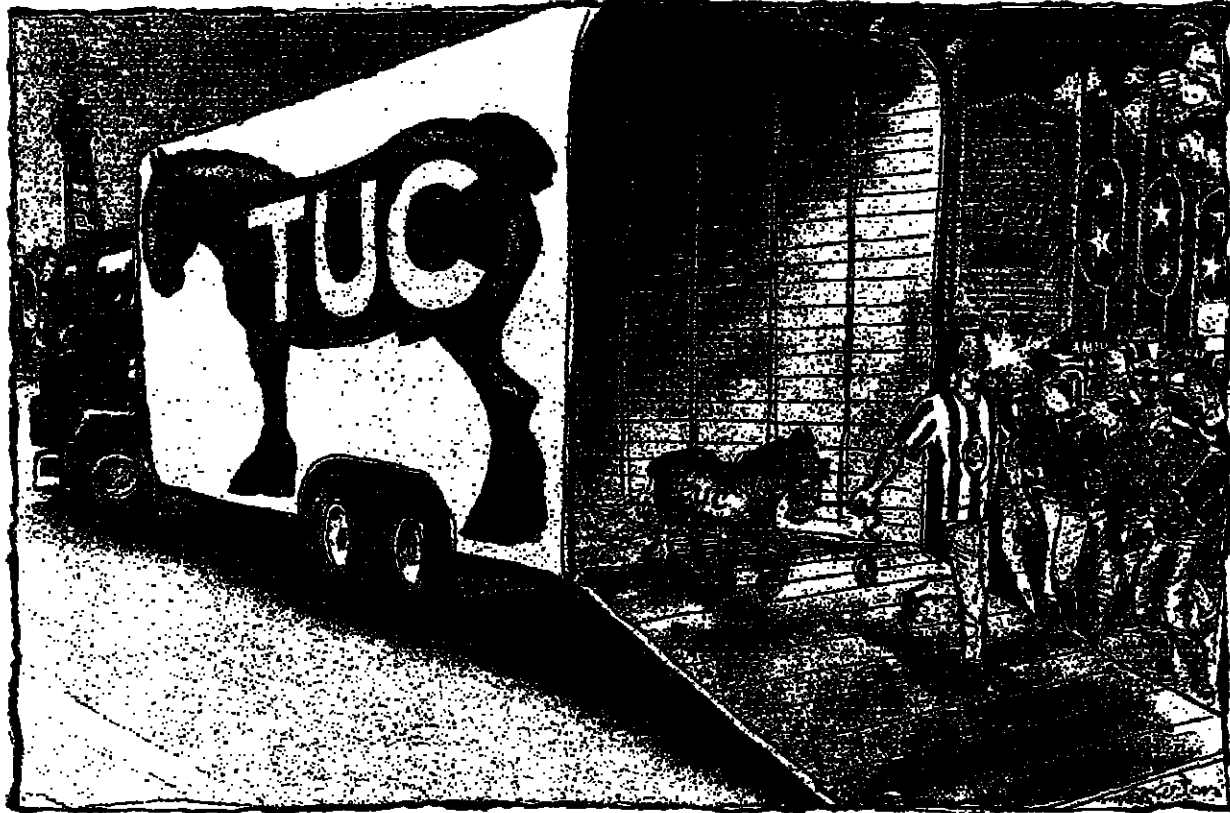
The Italian city of Perugia provides the setting for the trial of Giulio Andreotti, the former prime minister, on a charge of complicity in murder (to Sept 13). Testimony is expected from Tommaso Suscetta, the super-*pentito* or super-repentant mafia capo. Andreotti and others are accused over the murder of Carmine Pecorelli, a journalist, in 1979.

Netanyahu sees Clinton

A possible resumption of peace talks between Israel and Syria is expected to top the agenda when Benjamin Netanyahu, the Israeli prime minister, meets US President Bill Clinton in Washington. The Israeli foreign minister, David Levy, will be in Germany. Meanwhile, Israeli-Palestinian peace negotiations are scheduled to get back on track with a meeting of their steering committees.

TUC conference opens

Britain's Trades Union Congress opens in Blackpool (to Sept 13). It will be the last annual conference of Britain's trade union movement before the next general election. Strenuous efforts will be made by delegates to be on their best behaviour as they are desperate to see a Labour party victory. But debates over a national minimum wage target,



Delegates gather in Blackpool this week for the annual Trades Union Congress, which will be the last before the British general election

European economic and monetary union, and the introduction of new trade union rights may produce divisions. However, most union leaders are keen to demonstrate their enthusiasm for the party even if some dislike its leader Tony Blair's determination to distance it from them.

Battle over deforestation

Government delegates meet at a UN-sponsored meeting in Geneva to discuss recommendations on forest conservation for endorsement at the United Nations "Earth Summit II" in New York next June (to Sept 20).

Bribery findings in India

India's central bureau of investigation is to present its findings to the supreme court in an alleged bribery case in which four members of a minor Indian party were arrested late last week, and in which P.V. Narasimha Rao, the former prime minister, has been questioned.

FT Surveys

Birmingham and West Midlands; Reinsurance.

Public holidays

Belize, Mozambique, Tajikistan.

TUESDAY 10

German budget presented

Germany's 1997 draft federal budget comes before the Bundestag for its first reading. Theo Waigel, the finance minister, aims to cut federal spending by 2.5 per cent next year as part of an

ambitious effort to meet the Maastricht treaty criteria for economic and monetary union. Opposition parties will claim the minister's plans are unrealistic in the light of the government's inability to control costs this year. Separately, a key element of Bonn's economic strategy - measures to cut spending, restructure the welfare state and reduce non-wage labour costs - is due to clear its last parliamentary hurdle on Friday.

EU vets debate mad cows

The EU standing veterinary committee starts a two-day meeting in Brussels. The vets will discuss revelations that mad cow disease can be transmitted from cow to calf. There are concerns that the latest evidence could lead to calls for Britain to kill more cows under a selective slaughter programme designed to eliminate BSE.

Arafat in Tokyo

Yasser Arafat, the president of the Palestinian Authority, is to visit Tokyo in response to an invitation from Tomichi Murayama, the former prime minister. Mr Arafat is to discuss the Middle East peace process with political leaders and will meet Emperor Akihito and Ryutaro Hashimoto, the prime minister, among others.

Public holidays

Belize, Gibraltar.

WEDNESDAY 11

Chirac visits Poland

Jacques Chirac, the French president, begins a two-day visit to Poland, during which the Poles will want to fathom the extent of France's interest in playing a role in central Europe and seeking to balance German and Russian influence there. Also, they will argue that France should focus more attention on the issue of Poland's entry into the European Union.

Public holidays

Chile, Ethiopia, Pakistan, Spain (Catalonia only).

THURSDAY 12

Asean free trade moves

Progress on the Asean Free Trade Area (Afta), which is pushing its own free-trade agenda, will be the focus of economic ministers of the Association of South-east Asian Nations (Asean) at its annual meeting in Jakarta (to Sept 13). Afta has agreed to lower tariffs to a maximum of 5 per cent by 2003. Also on the agenda is deregulation of the services industry among member states - Indonesia, Malaysia, Singapore, Vietnam, Brunei, Thailand and the Philippines.

Political funding in Japan

With an election widely expected within a few months, Japan's home affairs ministry makes its annual announcement of the funds which the main political parties admit to have

raised the previous year. Last year tough regulations on how much could be raised from private donors were introduced in an attempt to curb political corruption - and a ¥30.1bn (£176m) public subsidy for parties' funds was established to compensate.

FRIDAY 13

Asean meets partners

Asean economic ministers are to hold meetings with four of the grouping's closest partners - Japan, Australia, New Zealand and the US. The delegation from Japan's ministry of trade and industry is likely to discuss Indonesia's "national car" project, over which Japan has threatened to take Indonesia to the World Trade Organisation.

Referendum in Morocco

Moroccans vote on a constitutional reform put forward by King Hassan II, paving the way for general elections. The change involves a two-chamber parliamentary system in place of the current single chamber. All members of the lower house would be directly elected - instead of two-thirds under the present system, which opposition parties have always complained is weighted in favour of them. A new chamber of councillors, representing local bodies, professional groups and trade unions, would also be created.

FT Surveys

Infrastructure in Latin America; Kansas.

SATURDAY 14

Elections in Bosnia

Bosnia's Moslems, Croats and Serbs vote just nine months after signing the Dayton peace agreement, ending the bloodiest conflict in Europe since the second world war. About 2.9m voters - more than half refugees - are eligible to vote in four ballots for offices in a very decentralised government whose structure is ostensibly to unify Bosnia's halves: the Bosnian Serb entity and the Moslem-Croat Federation. The same nationalist parties that waged war against each other are likely to capture the poll, which is being held in spite of the absence of freedom in most parts of the country.

Reform moves in Algeria

Political leaders in Algeria are invited by the president, Zeroual Lamine, to a two-day conference which may pave the way for a general election. This follows talks between the presidency and the parties that have yielded plans to reform election laws and ultimately ban Islamist parties. There has been no parliament since 1993.

FT Survey

FT Guide for the Serious Investor.

Public holiday

Israel, Nicaragua.

SUNDAY 15

Elections in Lower Saxony

Elections in the northern German state of Lower Saxony will shed light on how Gerhard Schröder, one of the most powerful figures in the opposition Social Democratic party, is faring. Mr Schröder secured an absolute majority in his home state in 1994. However, his star may be on the wane following efforts to trim the state's bloated budget and a noisy split from his wife.

Havel tours Brazil

Vaclav Havel begins a six-day visit to Brazil, the first by a Czech president. He meets Fernando Henrique Cardoso, the Brazilian president, before travelling to the Amazon city of Manaus - where he will be the first foreign president to visit an Indian reservation. The trip by Mr Havel, who will also travel to Sao Paulo and Rio de Janeiro, was prompted by his interest in environment and development issues. He will continue to Chile, Argentina and Uruguay (to Sept 28).

Human chain in Italy

In Italy, the Northern League's three-day festival of self-determination concludes with a human chain celebrating a "solemn ceremony of the birth of the Po Nation". The festival starts at the source of the River Po, where water will be collected and some turf cut. Supporters will take these downriver, collecting produce and products in Piedmont, Lombardy, Emilia and the Veneto. They will be deposited in Venice, where a declaration of independence will be read and Umberto Bossi, the League's leader, will speak.

Chess

Nigel Short leads England in the 130-nation Chess Olympiad at Erevan, Armenia (to Oct 2). The team was runner-up to the former Soviet Union three times in 1984-88 and has its best chance yet for a gold medal. Garry Kasparov leads the Russians.

Horse racing

The 1½-mile St Leger, last of the season's English classic races, is run at Doncaster racecourse.

Cycling

World mountain bike championships, Cairns, Australia (to Sept 22).

Public holiday

Costa Rica, El Salvador, Guatemala, Honduras, Israel, Nicaragua.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Aug producer price index input*	0.3%	0.2%	US	Aug monthly M1	\$2.0bn	\$2.2bn	
Sept 9	UK	Aug producer price index input**	-2.2%	-2.1%	US	Aug monthly M2	\$11.7bn	\$5.4bn	
	UK	Aug producer price index output*	0.0%	-0.1%	US	Aug monthly M3	\$15.5bn	\$10.0bn	
	UK	Aug producer price index output**	2.0%	2.2%	Spain	Jan industrial production**	-2.8%	-3.3%	
	UK	Aug PPI ex food, drink and tobacco**	1.4%	1.7%	Fri	Canada	Aug cons price index, all items, not*		0.0%
	US	Jul consumer credit	\$7.5bn	\$8.3bn	Sept 13	Canada	Aug cons price index, all items, not*		1.2%
Tues	Japan	Jul machine orders ex elec & ships*	11.0%	3.2%	Canada	Aug CPI ex food and energy** not*		1.4%	
Sept 10	Japan	Jul machine orders ex elec & ships*	8.5%	-0.6%	US	Aug retail sales	0.7%	0.1%	
	Canada	Aug housing starts, units	129k		US	Aug retail sales, ex cars	0.5%	-0.3%	
	Canada	Q2 industrial capacity utilisation	82.6%		US	Aug consumer price index	0.2%	0.3%	
	US	Q2 current account	-\$95bn		US	Aug CPI ex food and energy**	0.2%	0.3%	
	US	Q2 productivity revenue	-0.1%		US	Aug real earnings	-1.5%		
	US	Jul wholesale trade	0.3%		US	Aug bank credit	-1.1%		
Wed	UK	Aug unemployment	-15k	-24k	US	Aug C&I loans	5.9%		
Sept 11	UK	Jul average earnings	3.75%	3.75%	During the week...				
	UK	Jul unit wages 3M**	3.2%	3.3%	Germany	Jul capital account		DM1.2bn	
Thurs	UK	Aug retail price index*	0.5%	-0.4%	Germany	Jul net foreign securities purchases		DM18.7bn	
Sept 12	UK	Aug retail price index**	2.0%	2.2%	Germany	Jun retail sales, real**	-1.0%	-3.0%	
	UK	Aug retail price index X**	2.7%	2.8%	Germany	Jun retail sales*†	0.0%	-1.0%	
	UK	Aug retail price index Y**	2.3%	2.4%	Germany	Aug final cost of living, west*		0.4%	
	US	Aug PPI ex food and energy	0.2%	0.1%	Germany	Aug final cost of living, west**		1.3%	
	Canada	Jul motor vehicle sales*	1.9%	1.9%	Germany	Aug final cost of living, pan-Germy**	-0.1	0.2%	
	US	M1, week ended Sept 2	\$2.1bn	\$2.9bn	Germany	Aug final cost of living, pan-Ger**	-1.4%	1.6%	
	US	M2, week ended Sept 2	\$6.0bn	\$2.5bn	Germany	Aug wholesale price index*	-0.2%	-0.5%	
	US	M3, week ended Sept 2	\$5.3bn	\$7.1bn					

Other economic news

Monday: UK industry's output costs are expected not to have changed last month, although raw material costs are thought to have risen a little. Growth in US consumer credit is thought to have slowed a little further in July.

Tuesday: The US current account deficit is forecast to have widened in the second quarter of the year, while wholesale trade growth may have stepped up in July. Mexico's unemployment rate is thought to have declined a little in August.

Wednesday: The decline in UK unemployment is thought to have slowed last month, but to be in line with the underlying trend of recent months. Canadian raw material inflation may have accelerated in August.

Thursday: The headline inflation rate in the UK is forecast to have fallen last month, although the fall in the underlying rate should have been less dramatic. US producer price inflation should have picked up in August, while Australian unemployment was stable.

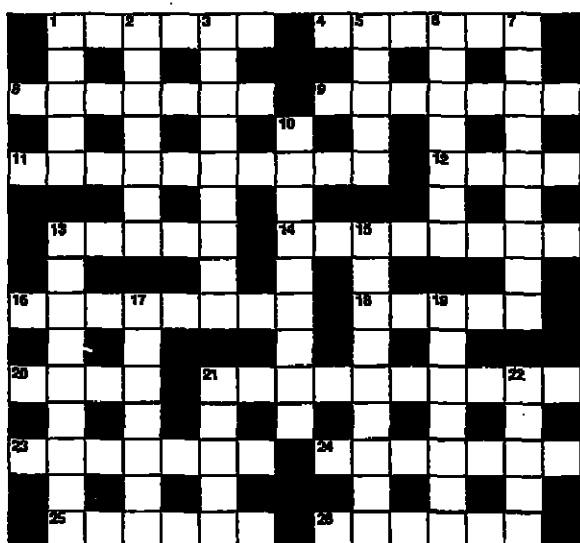
Friday: Growth in US retail sales is forecast to have risen last month.

ACROSS

- 1 Seal up sick note written by doctor (6)
- 4 Note old boy network in Shakespearean play (6)
- 8 Pasta cooked the country way - to sink in the middle (7)
- 9 He refuses to work for more pay, perhaps (7)
- 11 Famous Western stage partnership (5,5)
- 12 Fish spear (4)
- 13 A Russian twice pockets gold (5)
- 14 Take the plunge? Even so I'd make a mess of it (4,4)
- 16 Withdraws from agreement in which officers are involved (5,3)
- 18 Sing sloppy corn about love? (5)
- 20 In ancient myth she became a goddess (4)
- 21 Mineral water for the Londoner (10)
- 23 Blimey, Alec's capsized the boat (7)
- 24 A canoe I see around Pacific Islands (7)
- 25 Items on it may be deleted a long time and amended (5)
- 26 Country editor beset by bad news (6)

DOWN

- 1 Destroy note written in Gaelic (5)
- 2 Vessel churning up water left and right (7)
- 3 Public declaration in the show-ring (5)
- 5 Best at the barbecue (5)
- 6 Beaten by a whisker (7)
- 7 Emerge neither winner nor loser, still after a bit of luck (5,3)
- 10 Farms torn apart in change (9)
- 13 A lone crab scuttles round by the sea in Spain (9)
- 15 Counterpart to a Papal bull that's beyond criticism? (6,3)
- 17 Leave scribbled note offering lift (7)
- 19 Apparent, but not in a sister's concern (7)
- 21 Firm I didn't buy out (5)
- 22 Scot gets a lift with sailors in Scotland (5)



MONDAY PRIZE CROSSWORD No.9,168 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday September 19, marked Monday Crossword 9,168 on the envelope, to the Financial Times, 1 Southampton Bridge, London SE1 8LL. Solution on Monday September 23. Please allow 28 days for delivery of prizes.

Name _____
Address _____

Winners 9,156
Theresa Castillo, Malts
Mrs L. Barwick, Frimley
Green, Surrey
G. Carter, London EC
P.A. Fox, Beauchief, Shef-
field
E.K. Goldwin, Seaford, East
Sussex
H.V.S. Page, Lymm, Ches-
hire

Solution 9,156
NOVAGE KEVINARD
E E K S I I O I
PORTUNE RABMINE
E S I A T E P
LEAD STOREHOUSE
E I I I I I I I I I
S I I I I I I I I I
S I I I I I I I I I
MEASURE ACQUIT
S I I I I I I I I I
GARRIBONDY BUTI
O R I I I A I I C
T I I I I I I I I I
I I I I I I I I I I
STOUTISH GLADIES

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JOTTER PAD

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16 January 0900 hrs



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6 REINSURANCE

■ Environmental liability: by Trevor Petch

Cleaner laws planned for the EU

Europe is trying to harmonise national regulations about pollution

Headlines are grabbed by environmental liability insurance mainly when it concerns the US, where paid losses and loss reserves for non-asbestos pollution cost the insurance industry \$22.8bn between 1991 and 1995. Disputes about what makes pollution "sudden and accidental" or "gradual", or "intentional", and which policies written in the past have valid claims upon them and which do not, have cost insurers millions of dollars in legal fees alone.

A crucial issue is what triggers the liability in the policy. Until the early 1980s, the "occurrence" wording was standard: the policy pays if the incident occurred while the policy was in force. Since 1986, cover for pollution has been written (if at all) on a "claims-made" form: the policy pays if a claim is notified during the policy period.

In Europe, the issues are less well reported. In 1993, the European Union (EU) green paper on Remedying Environmental Damage was published, followed by extensive consultations. Last spring, specially commissioned studies by lawyers McKenna & Co and ERM Economics were completed to identify the implications of the disharmony in national regulations.

Any EU harmonisation will concentrate on future liability for future damage, wherever possible leaving the minefield of existing pollution and its clean-up to member states. EU environ-

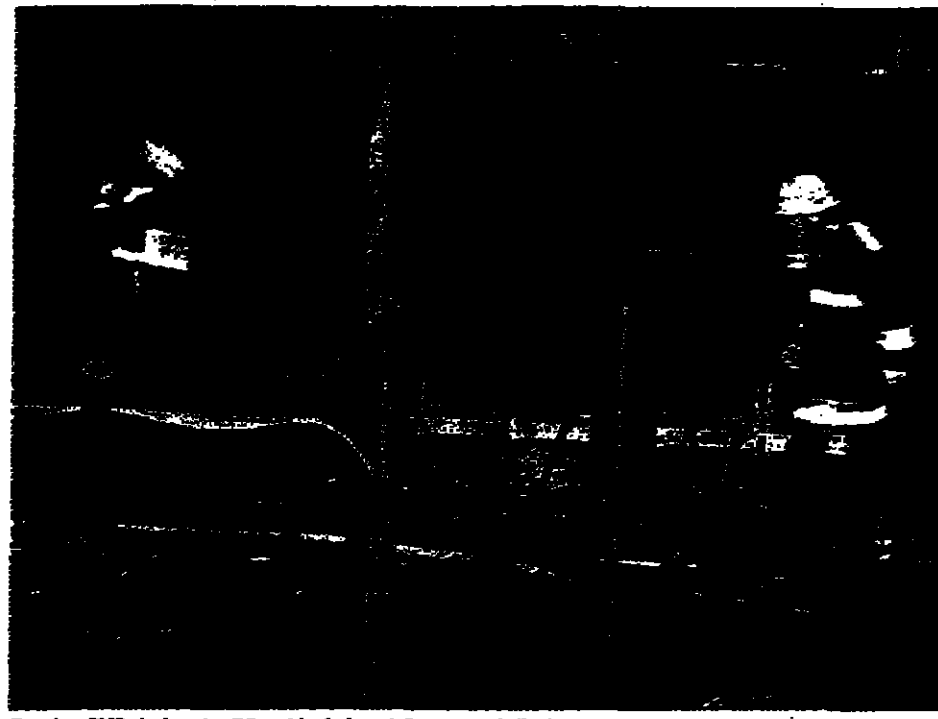
ment commissioner Ritt Bjarregard is due to present proposals to the EU College of Commissioners by the end of this year.

Three options are under consideration. The simplest is a direct legislative proposal in the form of a draft directive, however hard that may be to formulate. An alternative would be to move from the green paper to a white paper of broad policy proposals, but this would inevitably lengthen an already drawn-out process.

Also possible is some form of accession to the Council of Europe convention on civil liability for damage to the environment (the Lugano Convention). This is not in force, having failed to receive any of the three national ratifications required since it was opened for signature in mid-1993, although it has been signed by five EU member states (Finland, Greece, Italy, Luxembourg and the Netherlands) and three other European Economic Area members.

These are the countries most in favour of a harmonised regime. In addition, new EU members Austria and Sweden both have strong domestic environmental lobbies and, like Finland, existing legislation in many areas tighter than existing EU standards. Their accession agreements allow these to be maintained for four years pending a Commission review of the EU regime as a whole.

There is enormous variation in insurance provision for "gradual" (rather than "sudden and accidental") pollution in the EU. Special environmental insurance pools have been established in five countries, of which the most developed is proba-



Burning PVC during the Düsseldorf airport fire caused dioxin contamination

bly Assurpol in France, established in 1977. In Italy, where by historical accident there is a long-standing absolute exclusion of environmental pollution from general liability policies, cover has been available from the Inquinamento pool since 1979. In the Netherlands, the MAS pool established in 1984 concentrates mainly on agricultural pollution and small businesses. Newer vehicles exist in Denmark (1992) and Spain (1994). All are small compared to the potential liabilities to be insured.

In Germany, the Environmental Liability Law which came into effect at the beginning of 1991 introduced strict liability for pollution and compulsory financial guarantees for a list of specified installations, but the regulation setting out the concrete financial requirements has yet to be issued.

The German liability insurers association, the HUK-Verband, issued a model wording with a "manifestation" wording: the policy pays when pollution manifests itself while it is in force. The German insurance industry has since been successful in making leading industrial companies take out special environmental impairment liability (EIL) insurance by excluding pollution from their general commercial liability policies.

No doubt partly influenced by this experience, at the 1995 Monte Carlo Reinsurance Rendezvous Wilhelm Zeller, then a board member of Cologne Re, suggested that "gradual" pollution should once again be accepted as a standard insurable risk, but on two conditions. Pollution should be excluded from the premises section of standard civil and commercial liability policies and incorporated instead into special EIL policies; and the cover should be on a claims-made basis with a set limit, be site specific, and

exclude both past damage and pollution resulting from normal operations. Although much discussed, the practical response to this logical but radical idea has been limited.

A market-based approach similar to the German model has been tried in France, where in 1994 insurers restricted pollution cover in commercial liability policies to a very low level. At the same time, a carrot was offered by Assurpol in changing from a claims-made wording to one of "première constatation", which may be translated as first verifiable discovery and is similar to manifestation. (The same term has been adopted in Spain.)

Without a legal stick, however, most of industry refused to be driven into EIL policies. This may partly reflect the fact that claims-made wordings cannot be enforced in French courts. Similar court decisions have been made in Belgium and Spain, but these were anomalous, and the legal position has since been amended.

In the London market, there are doubts whether the gradual pollution-exclusion wordings standard in commercial liability policies at Lloyd's, or the 1991 Association of British Insurers (ABI) standard exclusion clause would perform as insurers intended if tested in court.

One difficulty is that seepage exclusions apparently existed in the 1960s, but were dropped before gradual pollution exclusions began to be discussed.

Although US environmental liability insurance leaders AIG and ECS-Reliance both offer site-specific, claims-made cover for gradual pollution in the UK, uptake has been low. Specialists attribute this to the relatively low limits offered and high transaction costs involved, which make it too expensive for smaller companies and too restricted for large ones. Mr Zeller's proposal was partly intended to address such problems.

New difficulties are also appearing on the horizon. There is increasing concern over the pollution associated with large industrial fires, of which a recent example was dioxin contamination from burning PVC during the fire at Düsseldorf airport in April in the Netherlands, which concerned that debris removal clauses in fire policies could be exposed to soil and water clean-up costs, a property insurance association project group earlier this year proposed novel pollution policies which crossed the traditional boundaries between property and liability insurance.

Trevor Petch is consulting editor of the Financial Times newsletter 'World Insurance Digest'.

■ Global warming: by Leyla Boulton

Weather worries

Reinsurers are concerned that climate change may be causing extreme conditions

Two events over the past year suggest that the reinsurance industry is more worried than most other lines of business about global warming.

Thirteen reinsurance companies in Bermuda, home to 20 per cent of the \$6bn catastrophe reinsurance market, last November set up a centre to study implications for the industry in the light of research on climate change.

In July, a group of 60 big reinsurance and insurance companies represented in Geneva at the United Nations environment programme insurance industry initiative called for serious international action to tackle the problem.

Other industries, which could be affected by international action to limit global warming, doubt the threat is that serious. However, the reinsurance sector wants action to be taken on a "precautionary basis". This means taking measures to deal with a problem before it is fully proven because the potential consequences could be too grave to await definitive proof.

The sector's main fear is that climate change could cause extreme weather conditions which in recent years have resulted in increasingly large claims from property damage.

The United Nations Environment Programme (UNEP), which helped bring the companies together, believes that from 1987 to 1993, "16 billion plus catastrophes linked to the environment resulted in worldwide insured losses of over \$50bn". The largest was Hurricane Andrew in December 1992, which cost \$17bn in insurance claims.

Walter Jakob, executive director for overseas business at Germany's Gerling Konzern Globale Re, notes that natural catastrophes - 70 per cent of which are weather-related - represented 2 per cent of world

premium income in the 1990s compared to 0.5 per cent in the 1970s.

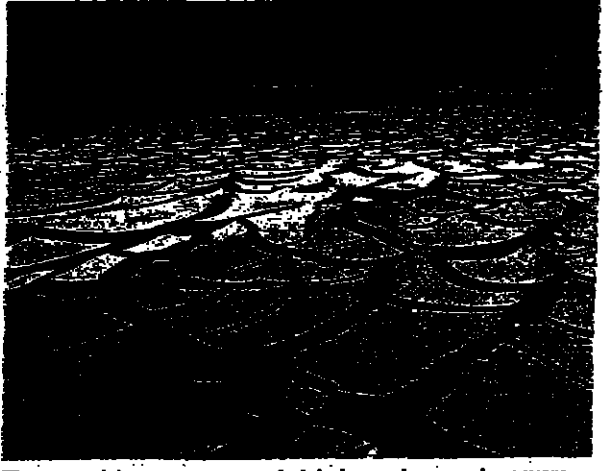
Industry executives concede that very little is known about the exact nature of the threat of global warming, such as what its regional consequences might be. "That is why it is not something that is affecting our prices," explained one executive at another reinsurance company.

But in applying the precautionary principle, the industry's position paper, presented to representatives in Geneva, called for "substantial reductions in greenhouse gas emissions". This was accompanied by a ringing endorsement of findings

which co-ordinated the initiative on global warming, believes that losses generated by extreme weather may have helped speed up the consolidation of the reinsurance industry.

He also argues that the problem is potentially more serious for reinsurers than for insurers. "The most obvious reason is that reinsurers can be affected by anything that happens anywhere," he said, referring to the fact that they are bigger, and more internationally exposed. The way risks are distributed between insurers and reinsurers is also a factor.

However, while there is a strong degree of consensus



The potential consequences of global warming may be severe

by the Inter-governmental Panel on Climate Change that the "balance of evidence" suggested a "discernible" human influence on climate.

"Man-made climate change will lead to shifts in atmospheric and oceanic circulation patterns," said the paper, which adopted a more positive line than the IPCC.

"This will probably increase the likelihood of extreme weather events in certain areas. Such effects carry the risk of dramatically increased property damage, with serious implications for property insurers and reinsurers."

Andrew Dugolecki, who is assistant general manager for underwriting at General Accident and a member of the steering committee

within Europe and Japan over the problem, US reinsurers are still wary of joining a growing campaign by the industry to tackle climate change. US companies were not among the 60 backing the position paper presented this summer.

However, Frank Nutter, president of the Reinsurance Association of America, suggests this may be simply a matter of US companies being "lower down on the learning curve" on this issue. He also notes that many of his members, already embroiled in expensive law suits over land contamination, are fearful of being held legally responsible for signing up to a pledge by the 60 companies to take environmental problems more seriously.

Eight ways an environmental claim might "begin"

- 1 An incident which may result in a future problem, e.g. corrosion of an underground storage tank;
- 2 The cause of a pollutant escaping, e.g. the rupture of the tank;
- 3 The escape of the pollutant into the environment, e.g. the leakage of fuel oil;
- 4 The (not often perceived) presence of the pollutant in the environment, e.g. oil in the soil;
- 5 The changing situation of the pollution condition, e.g. the migration of fuel oil via ground water to adjacent land;
- 6 The occurrence of a legally relevant loss, e.g. damage to property on the adjacent land;
- 7 The manifestation of such loss, e.g. the damage associated with fuel contamination becoming noticeable;
- 8 A claim being made or a clean-up being mandated by the government.

Source: Pollution Liability Exposure: How to get off the "Sudden and Accidental" Threshold? - Wilhelm Zeller

■ Bermuda: by Ralph Atkins

Revolution on the beach

More than \$5bn has been invested in property catastrophe reinsurers

Even beach life gets difficult after a while. In spite of the many advantages of a Bermuda base, the island's fast-growing reinsurance sector has not been exempt from the pressures that have affected the international industry.

Falling premium rates are increasing pressure to squeeze the best returns out of the Bermudian reinsurers' abundant capital, while the demand for financial security is putting a premium on size, as well as geographical and product diversification.

The result has been a series of moves intended by the largest Bermuda-based groups to ensure that they retain a competitive edge - and to build the island's rapid reinsurance growth. Since the early 1990s, more than \$5bn has been invested in the island's property catastrophe reinsurers, attracted by Bermuda's tax advantages, political stability and light-touch regulatory system.

John Kriz, insurance analyst at Moody's Investors Service, says: "In Bermuda, one of the great reinsurance success phenomena of the past decade, the watchword today seems to be, 'this island ain't big enough for all of us'."

There will not be "any shoot-out on Front Street", Mr Kriz believes, "but the Bermudian property catastrophe reinsurers are only a few years old and they are already undergoing restructuring."

The most dramatic move has been the island insurance industry's first hostile takeover bid. Ace, a diversified insurer specialising in "long tail" business (such as product liability and insuring company directors against damages in areas where claims can take years to feed through) earlier this year announced plans to acquire Tempest, a property catastrophe reinsurer. But it found itself competing with an offer from IPC, a rival reinsurer. Ace eventually won after raising its offer to more than \$500m.



Since the 1990s, Bermuda has been an important centre for "captives"

Of course, a large part of the wrangling was unrelated to strategic trends in reinsurance. American International Group, the New York-based insurer headed by Maurice "Hank" Greenberg, had equity stakes in both Tempest and IPC. And Mr Greenberg, who has a reputation in the insurance world for deal-making, is understood to have been unhappy with the original terms Tempest was given by Ace.

Some observers believe Mr Greenberg hoped the IPC approach would persuade Ace to improve its offer significantly - and it did. But the Ace/Tempest deal highlighted the desire of Bermudian insurers to develop new lines of business - and to make more effective use of their capital.

Brian Duperrault, Ace chairman, says size was not the main motivation behind the deal but, he says, "why not take a strength of the organisation and play on it?" Similar considerations explain the move on Lloyd's by Ace and several other Bermuda reinsurers which have bought stakes in the managing agencies that run syndicates at the London-

based insurance market: Mid-Ocean in Brockbank; Terra Nova in Octavian; Trident Partnership in Venton; and Ace in Methuen. At the same time, Mid Ocean is also looking to expand into Asian markets and is expected soon to set up an office in Singapore.

Herbert Haag, chief executive of Partner Re, which, unlike its rivals, has deliberately stuck to being a specialist property catastrophe reinsurer, says: "Having achieved 'world-status', companies such as Ace have been forced to move away from their role as specialists in order to make use of their growing capital."

Such developments mark a further chapter in the relatively short history of Bermudian insurance.

Since the 1990s, the island has been an important centre for "captives" - insurance companies set up by ordinary companies or institutions to provide dedicated insurance cover for the risks associated with their business.

The mid-1980s saw the establishment of companies such as Ace specialising in North American liability insurance, offering protec-

tion, for example, against the risks associated with faulty products.

But in the early 1990s a series of natural catastrophes around the world led to the birth of the big, billion-dollar property catastrophe reinsurers. Like previous waves of development, the property catastrophe reinsurers sought to exploit a gap in international markets caused particularly by the difficulties at Lloyd's of London.

Figures published in March, after a re-registration of Bermuda-domiciled insurers showed for the first time a sectoral breakdown. Some 899 companies - representing more than 60 per cent of the register - had been licensed as "captive" insurers.

A further 254 international insurers fell into the category covering some low-risk reinsurers and conventional insurers while 15 received licences reserved for the heavily-capitalised property catastrophe reinsurers and "excess liability" insurers. A further 74 insurers wrote long-term, life assurance business or a mixture of life and general business.

Once gaps in the international insurance market had been filled, Bermuda's insurers faced the danger of being left with too much capital and too few opportunities in their specialist fields, hence the pressure to diversify or consolidate increased. Another symptom has been a number of share buy-back schemes.

Bermuda is also looking to retain its innovative edge in developing new products, many of which remain at the experimental stage. Here the possibilities of the "securitisation" of risk - by which capital markets are tapped for funds to cover the cost of large-scale catastrophes - could offer possibilities. The island has already developed products which bridge the gap between conventional reinsurance and highly-sophisticated financial products.

Evolution is important. "We saw that we didn't need to limit ourselves to a single line of business. In that sense the [Bermuda] market is nothing like mature. It hasn't reached its full potential," said Mr Duperrault.

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معلومات الاتصال

New products by Trevor Petch

Developing options

Access to capital markets provides opportunities for catastrophe funding

Zurich Insurance Group has been an acknowledged leader in reinsurance innovation since it co-founded Centre Re in 1988.

Centre Re wrote what it called finite risk reinsurance, and what most of the rest of the market called "financial reinsurance". At a time when many insurers were reluctant to increase their own rates to alleviate the losses of their reinsurers, the mixed reinsurance and financial packages called "financial reinsurance" in effect offered reinsurers control over part of their clients' investment portfolios instead.

For some clients, on the other hand, one attraction was the ability to manage their capital and net asset position, frequently with off-balance-sheet transactions.

In Europe and the US, the

authorities took a dim view of this "surplus relief" and new accounting standards removed much of the demand for the early products. What was once seen as arcane has been developed by Zurich's reinsurance division into the cornerstone of its strategy.

The four main elements of its "Total Risk" approach - multi-year contracts with premiums which reflect loss experience, guaranteed reinsurance capacity and aggregate limits, a significant degree of profit sharing, and a willingness to consider types of cover not offered by traditional reinsurers - are straight out of the Centre Re manual. The penetration of the cutting edge into the mainstream was illustrated by last month's announcement by the UK's Independent Insurance Company of a five-year reinsurance contract with a panel of five reinsurers.

"The quality of our results has not been fully reflected in our reinsurance terms. This will give us much better continuity," says Peter

Adlington, reinsurance manager of Independent Insurance Company. Innovation has meanwhile moved into the areas of reinsurance derivatives and securitisation, the packaging of insurance risk for direct placement on the capital market.

Reinsurance derivatives were pioneered by the Chicago Board of Trade (CBOT) in 1992. They are now based upon one national and eight regional daily loss indices produced by Property Claims Services. In simple terms, an insurer buys call options to cover a regional catastrophe loss which reaches a specified level, and sells put options for the level at which it wishes cover to cease.

The result is a layer of funding which is not unlike a layer of excess of loss reinsurance, except that it is based upon the average loss in the region rather than the actual losses incurred by the insurer's portfolio.

These "call spread options" are therefore a little reminiscent of another early 1990s hybrid, the "double trigger franchise cover". This provided the client with a layer of catastrophe reinsurance protection above a set level, but only paid up if the total market loss from the event was of a specified size. The idea was to protect the reinsurer against a client which had unwisely over-exposed itself to accumulation of losses in a specific region.

Refinement of the CBOT instruments since their introduction has improved turnover, but open interest has remained low. This partly reflects the fact that their use is permitted by a limited number of US insurance regulators as investment instruments - not only therefore they do not enjoy statutory liabilities in the way traditional reinsurance does.

A second approach to insurance derivatives is being developed by the New York Catastrophe Exchange (CATEX). The aim is to create a real-time electronic market through which the money at risk from specific catastrophe exposures can be traded between participants, enabling risks to be diversified directly. A main target market is industrial corporations and the captive insur-

ance companies they own for their own risk management needs.

These are also customers for Zurich's financial engineering packages, which blur the traditional distinction between insurance and reinsurance.

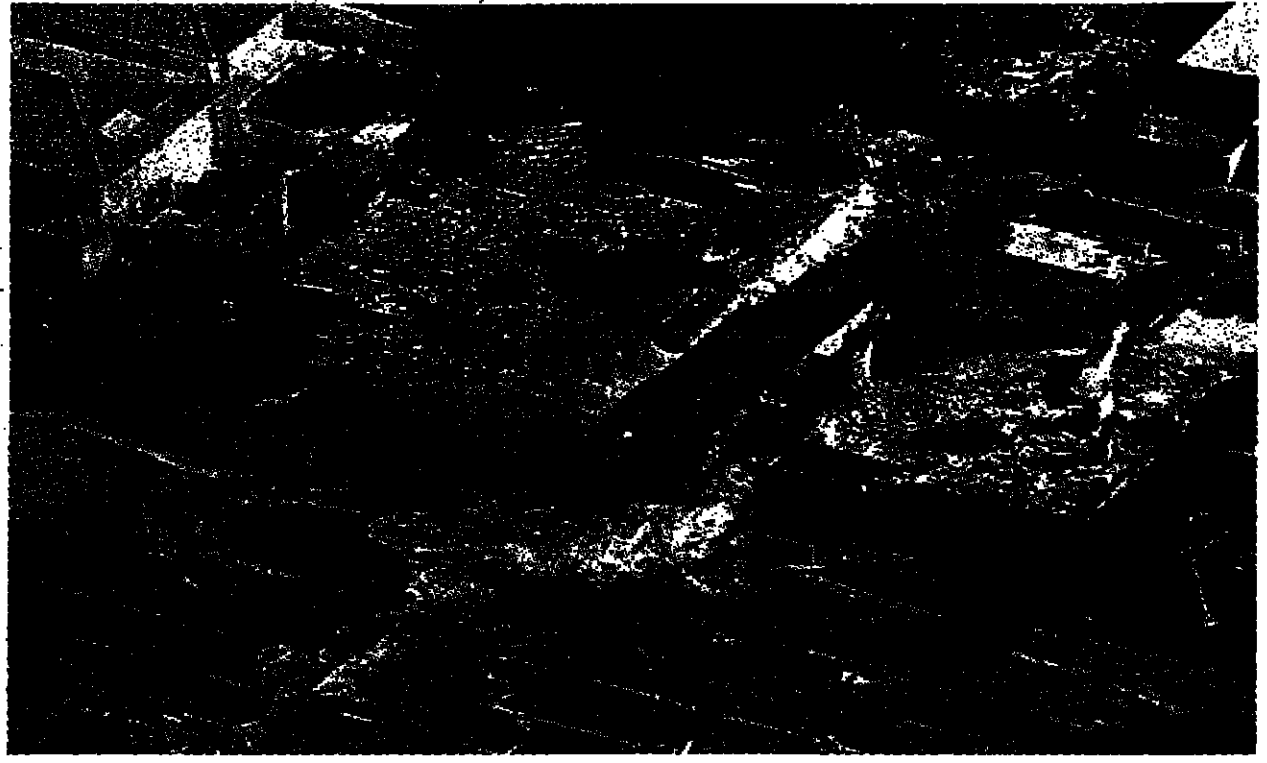
Facilitating transactions between the traditional reinsurance and derivative markets is the aim of Normandy Re, a "transformer vehicle" set up by Guy Carpenter & Co, the reinsurance holding arm of leading US broker Marsh & McLennan.

Capitalised at \$5m, Normandy Re intends to provide reinsurance to its clients in a traditional form while offsetting these transactions with the purchase and/or sale of financial instruments such as catastrophe options on the CBOT.

This eases the main regulatory obstacle to wider participation by insurers. Normandy Re is part of Marsh & McLennan Risk Products, a new division formally established on July 1 with the aim of acting as a "portfolio manager" on behalf of capital committed from traditional reinsurance and capital markets. It plans to provide new and innovative property catastrophe capacity to its company clients.

Capital market participants have been wary of the new instruments because they lack the ability to quantify, categorise and price catastrophe risks. This is the gap which MarshMac Risk Products aims to bridge.

"This area will grow, but the new products we are



Losses from catastrophes, such as damage from earthquakes, can now be funded by reinsurance derivatives

dealing with will require educating buyers and sellers alike. That's part of the process," comments Brian Murphy, president of MarshMac Risk Products. A real prize is securitisation of insurance risk.

According to a recent study by Swiss Re sigma², together with insurance derivatives, these offer the possibility of generating an additional US\$30bn (\$20bn) in funding for a large natural catastrophe in the US by the middle of the next decade.

This is the same figure which Swiss Re calculates represents the "capacity gap" between the catastrophe reinsurance protection

of the US insurance industry of about US\$20bn and the "reference loss" figure for a large California earthquake of US\$40bn to US\$50bn. The overall damage would be much higher than this.

Not only is the probable maximum insured loss from a worst case event more than US\$100bn, but only about 20 per cent of any damage is estimated to be insured against earthquakes.

The market capitalisation of the US insurance industry is in the region of \$200bn, the US reinsurance industry representing about 10 per cent of that. While a worst-case California earthquake would therefore cost more than half the capital of the US insurance industry, the average daily fluctuation of the US financial markets is estimated by sigma² at US\$32bn, about 0.7 per cent of the total market.

Swiss Re Financial Products, a joint venture with Credit Suisse, is one company which plans to exploit this potential. The first real effort to do so was as part of the California Earthquake Authority (CEA).

Morgan Stanley was to handle the issue of US\$3.5bn in 10-year earthquake risk bonds (ERBs), US\$2bn of the proceeds of which would be invested in government bonds to guarantee repayment of the principal at par. The remainder would pro-

vide funding of \$1.5bn in excess of losses of \$7bn, and pay interest twice-yearly unless an earthquake costing more than that amount occurred within four years, when payment would stop.

The CEA has not completed the approval process in the California legislature, so the bonds have yet to be issued. Also pending is placement of a catastrophe bond ultimately on behalf of leading US motor and household insurer USAA (through Merrill Lynch). This is also a "transformer" deal.

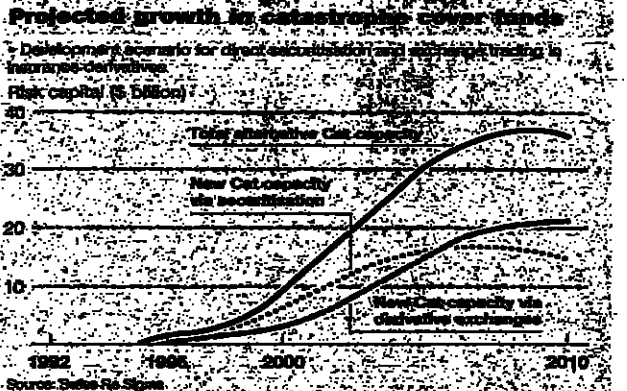
A specially constituted company, Residential Re, will provide a layer of reinsurance for USAA covering

losses from a single hurricane of more than \$1bn, matching it with an issue of one-year floating notes on which the future interest payments, and eventually the principal itself, will be lost if USAA makes a claim.

USAA lost \$587m from Hurricane Andrew in 1992, the worst on record with a total insured loss of \$16bn.

The issue offered for 1996-97 is very small - only \$1m - but a much more substantial placement of up to \$500m appears possible for 1997-98.

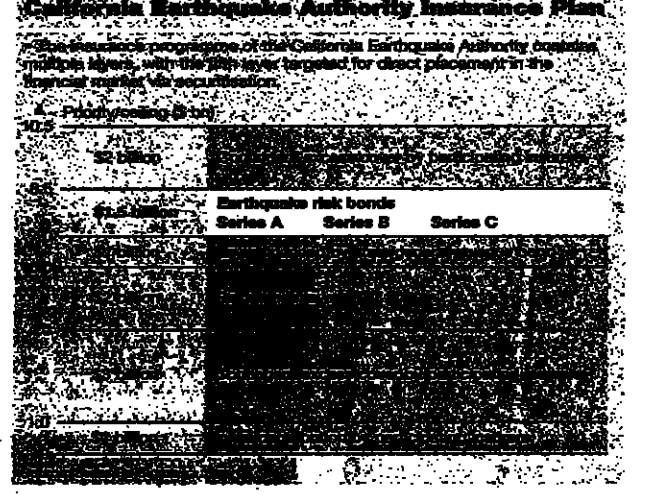
* Insurance derivatives and securitisation: New funding perspectives for the US catastrophe market. Swiss Re sigma² No 5, 1995.



Projected growth in catastrophe cover funds

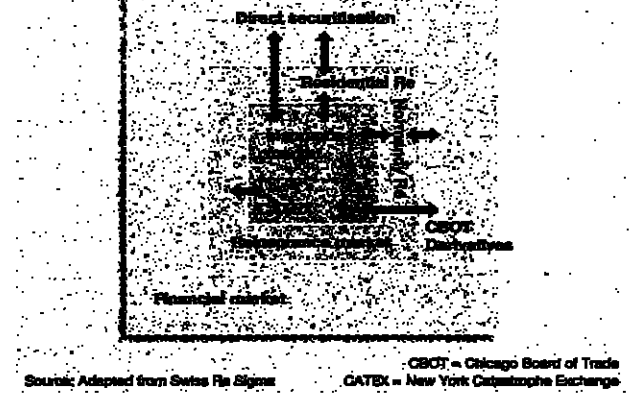


Funding US natural catastrophes



California Earthquake Authority Insurance Plan

CATEX realtime electronic market



CATEX - Chicago Board of Trade

Protection and indemnity claims by Adrian Leonard

Winds of change are blowing

Concern over unfunded liabilities may prompt changes in reinsurance

With several years of good records behind them, Protection and Indemnity clubs (P&I clubs) - the mutual insurers first established in the mid 19th century to provide reasonably priced insurance to ship owners - are looking for lower reinsurance premiums. Meanwhile, reinsurers outside Lloyd's, which has been the traditional centre of P&I reinsurance, are taking an increasing interest in the high premium, high risk business.

Sixteen clubs participate in a co-operative programme, the International Group Agreement, which shares claims greater than \$5m (\$3.5m) among all member clubs.

To protect against claims larger than \$30m, the International Group buys reinsurance, but in recent weeks it has called for lower premium rates on its sizeable reinsurance contract. The Group paid a gross premium of \$30m for its current \$1.5bn cover, which comes up for renewal on February 20, 1997.

"If we find the terms of the Group excess of loss contract unsatisfactory next year, we won't buy it," said Bryan Gaze, deputy chairman of the London P&I Club and a member of the Group's reinsurance committee.

Underwriters are not ready to offer a premium reduction of the order of one third, the amount suggested by Mr Gaze. The figure has been described as "unrealistic" and "ridiculous" by underwriters leading the contract. However, they are well aware that recently claims on the contract have been less than premiums.

"We have responded to the loss profile in each of the past two years," said Ian Agnew, underwriter of Lloyd's syndicate 672, which writes a "very substantial" line on the Group's reinsurance. "The clubs saw some

handsome reductions in February 1996 and February 1995." The reduction for the current year was about 15 per cent.

However, Mr Agnew explained that reinsurers must charge an amount commensurate with the risk, which would create very substantial liabilities should a serious loss occur. "One major claim in a year would make a mockery of the premium, let alone two or three," he said.

Richard Youell, underwriter of Lloyd's syndicate 79, which has led the Group's reinsurance contract since its inception, said "It is a long-term contract that does not have to react to market forces" but is also potentially at risk from catastrophes.

Steven James, chairman of the International Group's reinsurance committee, is also interested in a lower premium, but has not taken as strong a stance as his colleague. "We're always looking to get the best price, but I wouldn't want to see expectations rise prematurely," he said. "Let's see what losses occur."

While Mr James plays down the likelihood that the Group will take an

extremely tough line on rate cuts, it has devised an alternative plan, should the traditional reinsurance prove too expensive. Using what have been dubbed "designated reserves" the Group may be able to provide a margin, or even all, of the protection itself.

"Designated reserves" refers to the letters of credit (LoCs) each club has provided to the Group. They guarantee each member's ability to pay their Group pool commitment should a large loss occur. The amount of the letters of credit is not equal to the full obligation of the clubs in such an event, but as the Group begins to increase the amount of risk retained by the pool early this decade, it requested increasingly large LoCs.

Should reinsurance cover not be purchased, a possibility which Mr James said "is not entirely remote", the amount of the LoCs would have to be very substantial indeed. "And for 300 clubs would not have to pay reinsurance premiums."

In the event that the reinsurance is scaled back under the designated reserves scheme, at least the first \$750m of cover would be retained, with a stop beyond

a certain level of loss. This kind of approach could be executed, Mr James said, without extra costs to the ship owners. "In the long run, owners could expect a saving."

The structure of the Group reinsurance is extremely complicated. For the current year, it is divided into three contracts which are placed separately.

The first layer of protection, insured almost entirely at Lloyd's, provides \$750m protection for non-oil pollution claims in excess of club and Group retention of \$3m and \$25m respectively. In addition, it simultaneously includes oil pollution cover capped at \$500m. Both can be collected for a single incident.

The second layer covers \$350m for single-incident non-oil pollution losses from \$700m to \$1.13bn. Less than half of this cover is placed at Lloyd's, with most of the balance placed with US reinsurers.

The final layer provides an additional \$400m of protection, and differs from the first and second because it provides protection for aggregate claims, rather than an unlimited number of single incident losses. It is entirely placed with three Bermuda companies.

If a catastrophic marine loss should occur which exceeds the \$1.53bn total reinsurance protection, liability returns to the clubs. At present, the Group has limited to 20 per cent its responsibility for such an "overspill", although the level of limitation is a subject of great debate in the P&I community.

In addition to the \$30m deductible, the Group retains 15 per cent "vertical co-insurance" of all losses within the first \$700m layer, raised from 10 per cent in 1995. Thus, if a claim of say \$780m were to fall, clubs and the group would pay the first \$30m, and 15 per cent - \$112.5m - of the next \$750m.

Individual clubs representing about 75 per cent of the Group's tonnage - 10 in total - have purchased a reinsurance package for the top part of this extra 15 per cent

risk, led by Swiss Re. The protection provides excess of loss cover for each club's share - in practice about 1 per cent - of losses in the first layer greater than \$500m. It will provide up to \$250m for one such claim, and up to \$500m for two or more claims.

Other clubs have chosen an alternative which offers protection against their shares of a single loss exceeding \$500m within the 15 per cent co-insurance band. The cover is led by Lloyd's syndicates.

In its annual report, the Standard P&I Club states that its purchase of reinsurance was in part "to establish an alternative basis of purchasing reinsurance, which may prove beneficial in future years". Increasingly, clubs are

looking outside Lloyd's for reinsurance cover.

One club has reinsured the top \$3m of its \$5m club retention in a contract led by Munich Re and supported by Swiss Re and General Re. Such companies are increasingly interested in P&I.

Munich Re, for example, which participated in the Group contract in the 1960s and 1970s but pulled out for

"technical reasons", is reported by one club to be slowly investigating the P&I business. The company, with the same supporters, reinsures the P&I's vertical co-insurance as well, but only for claims by the individual club's members. At present Munich Re is not prepared to risk insuring unknown vessels and owners.

Bermudian and US reinsurers are also playing close attention, but a leading Lloyd's underwriter has shrugged off their involvement. "I don't think they're interested in P&I, they're interested in large premiums," he said. "We see it as risk transfer at Lloyd's, not as a pure banking operation."

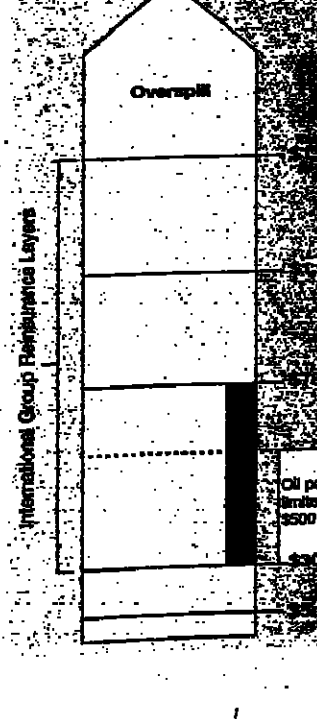
"I don't discount competition," another contract leader said. "No Lloyd's underwriter should be under the misguided opinion that we have some sort of God-given right to the business - clubs could find some substantial alternative market."

However, both pointed out that Lloyd's has reinsured P&I clubs in good times and bad. "In the years when capacity was scarce - and they coincided with a deteriorating loss record - it was Lloyd's and conventional contract underwriters who remained with us," said Mr James. "That's how we want to continue."

Adrian Leonard is a writer for the Financial Times newsletter World Insurance Report.

overspill

Oil pollution covered by \$500 million



overspill

Oil pollution covered by \$500 million

overspill

Oil pollution covered by \$500 million

8 REINSURANCE

■ Risk of terrorism: by Elizabeth Brown

Competition increases

Pool Re has received £370m claims after the Manchester bombing

Growing awareness of the risk of terrorism has sparked renewed interest and increased competition in the UK insurance market in the wake of the Manchester and London docklands bombings this year.

The Manchester city centre bombing on June 15 left 200 injured, and resulted in extensive damage to commercial properties. Pool Re, the UK reinsurer of terrorism risks, has received an estimated £370m of claims from the incident so far.

The knowledge that regional centres outside London could be subject to terrorist attacks has triggered increased interest in the purchase of terrorism cover in recent months.

As one London broker says: "There has been a massive increase in interest from people who have been uninsured before and also those who realised you don't have to be situated in London to be exposed. If Manchester had not happened we would have had a little more interest. Manchester has underlined that you are not OK out of London any more."

Pool Re, the government-backed department of trade and industry (DTI)-approved reinsurance mutual has been in place since January 1, 1993. It was set up following the St Mary Axe bomb in 1992, when many reinsurers withdrew from providing cover against losses due to acts of terrorism on the UK mainland.

Just four months later, in April 1993, the Bishopsgate bomb blast led to insured losses of £850m, of which Pool Re covered about half.

For an additional premium, the mutual provides cover for commercial and industrial risks on the UK mainland against losses due to acts of terrorism, over the £100,000 per policy category limit which has existed on UK commercial property



The Manchester bombing on June 15, 1996, has resulted in claims totalling £370m

insurance policies since January 1, 1993.

Only the day before the Manchester bombing, Pool Re said claims arising from the London docklands South Quay explosion on February 9 had reached £100m.

As a result, it withdrew the deposit premium arrangement with policyholders, which meant they would have to pay the remaining 40 per cent of their annual premiums. At the same time, Pool Re announced withdrawal of its 20 per cent discount to policyholders, which had been introduced at the beginning of 1996 following the IRA ceasefire.

Introduction of these premium arrangements had been made so insureds could benefit from the favourable claims experience which Pool Re had in 1995. Under the system, policyholders were required to pay 60 per cent of their premiums at renewal with the balance of 40 per cent required if total losses exceeded £75m in 1996.

Competition between Pool Re and alternative providers of terrorism cover has intensified in the wake of the Manchester bomb.

According to several London brokers, this increased interest has been triggered both by the Manchester bomb and Pool Re's decision to withdraw its deposit premium arrangement with policyholders and its 20 per cent discount just the day before.

"Since the announcement that Pool Re is charging 100

per cent premiums and then the Manchester bomb, there has been a heightened awareness of the risk which has led people to explore alternative means," said one leading broker.

There are several alternative schemes to Pool Re which offer terrorism cover in the UK.

Both the British Insurance and Investment Brokers Association (BIIBA) and London-based broker Minet have facilities on offer which are placed in Lloyd's. They provide capacity of £100m and £125m respectively.

In addition, Minet is able to offer top-up cover which can increase capacity to in excess of £200m.

According to those in the market, there are several advantages of going outside Pool Re to purchase terrorism cover.

"Terrorism cover in the open market provides an alternative to Pool Re in that clients can choose to be more selective in their cover. It enables people to be flexible and selective over locations and deductibles," said one broker.

However, Leslie Lucas, chairman of Pool Re, believes any increased competition in the terrorism market in the wake of the Manchester bombing can only be a healthy sign.

"The company was never set up as a monopoly. Therefore there was always the potential that alternative capacity would be made available," he said.

He explained it was diffi-

cult to pinpoint exactly what was triggering the increased demand.

"What nobody can tell is whether it is insurance purchased for the first time, or whether there has been some movement out of Pool Re to the alternate markets," he said.

Meanwhile, the close succession of the London docklands South Quay and Manchester bombings in 1996, is leading to growing speculation that Pool Re's rates may be set to increase further.

Several market sources have indicated that another terrorist incident, in the wake of the Manchester bombing, would almost certainly prompt a change in underwriting rules later in the year.

"If there was another bomb, I would think Pool Re will definitely up the rates," one source said.

However, Mr Lucas maintains it is unlikely Pool Re's 100 per cent rates will move any further upwards in 1996.

"The effects of withdrawing the deposit premium is to put the premiums back to 1994 levels," he said.

In the financial year 1994, Pool Re reported gross premiums written of £346m, compared with £196m for the financial year 1995. The reduction was due partly to the fact that premiums in 1995 were paid on the 60 per cent basis.

At December 31, 1995, Pool Re had paid out claims from commencement of £227m, while outstanding claims totalled £82m.

■ Sport: by Elizabeth Brown

Players raise the stakes

The insurance market is having to keep pace with the rising values of sports people

The start of the football season saw the transfer of top England striker Alan Shearer to premier league club Newcastle United for a record fee of £10m.

Mr Shearer's move highlighted the increasing value which individual players are now able to attract, due not least to the many sponsorship deals and bonus schemes in operation. It also pointed to the additional levels of protection which insurers and reinsurers will need to provide to keep pace with the modern world of professional sport.

As Jonathan Ticehurst, head of sports at London-based broker Windsor Insurance, says: "We will see the same situation arising over the next few years for other footballers who have a high value."

"The insurance market will have to be prepared to provide the insurance protection that the clubs want." In a market which is fairly small and specialised, each premier league football club has a different insurance buying philosophy. While some are more risk averse, others can afford to take

greater levels of self-insurance.

"The football insurance market is not like a super-market, you cannot go in and take it off the shelf. Like a bespoke tailor you have got to make sure you have got the right thing and that it fits," says Mr Ticehurst.

But as the trend of high player values continues and many sports make the transition from amateur to professional status, the question of whether there is enough capacity available in the market to meet the demand for cover remains a matter of debate.

According to Mr Ticehurst, for a premier league football club such as Newcastle United, there is certainly enough capacity in the market to provide the amount of insurance required.

"The capacity is there, but our job as brokers is to ensure that those that do write it continue to write it and though the numbers are getting bigger we have to persuade them to write more."

"We also have to search the world for other insurers, hitherto without the appetite for writing the risk, to see if they can be persuaded to enter the market," he said.

The football insurance market is understood to have made a mutual profit over the past five years, taking into account all aspects

of British football. But a career-ending injury to a high-value football player is just one example of an incident which could leave insurers and reinsurers exposed to significant claims. It would also put pressure on insurers to increase rates.

"There is no doubt if there were to be a career-ending injury with one of the high-value players, premiums would go up. It would not necessarily scare people away from football insurance but it might cause them to re-examine the premium rate," Mr Ticehurst said.

According to the Association of British Insurers (ABI), an estimated 20m new sports injuries occur each year, causing around 11m lost working days. Fatal sports accidents resulted in 148 deaths in the UK in 1992. The sport with the highest number of fatalities was motor sports, which left 16 dead.

Indeed, the death of racing driver Ayrton Senna at the San Marino Grand Prix in 1994, was the highest insurance claim for a sportsman in recent years. Lloyd's underwriters faced a claim of around £1m, arising from a policy which covered the racing driver against death and injury.

The stabbing of leading ladies' tennis player, Monica

Seles, at a tournament in Hamburg in 1993, was also reported to have triggered insurance claims of around \$10m.

More recently, the bombing at the Olympics in Atlanta which left two dead and 110 injured, showed that the risks faced by professional sports men and women are on the increase—both on and off the field. More stringent security measures, including electronic fences, infra-red cameras and metal detectors, will be in place when Sydney hosts the Olympics in the year 2000.

Meanwhile, many in the market agree that risk management across all sports will have to be stepped up if the rising costs are to be contained. There is also a growing possibility that sports insurers and reinsurers may decide to impose restricted terms to take account of the higher levels of risk.

The tendency of international football and rugby teams to travel together when on tour, is just one example of a potential catastrophic claim.

As Mr Ticehurst says: "When you have got these international teams all flying in the same airline, they are carrying some very high values. That is an enormous accumulation of risk on one airline."



The £15m transfer of footballer Alan Shearer highlighted the protection insurers need to keep pace with professional sport

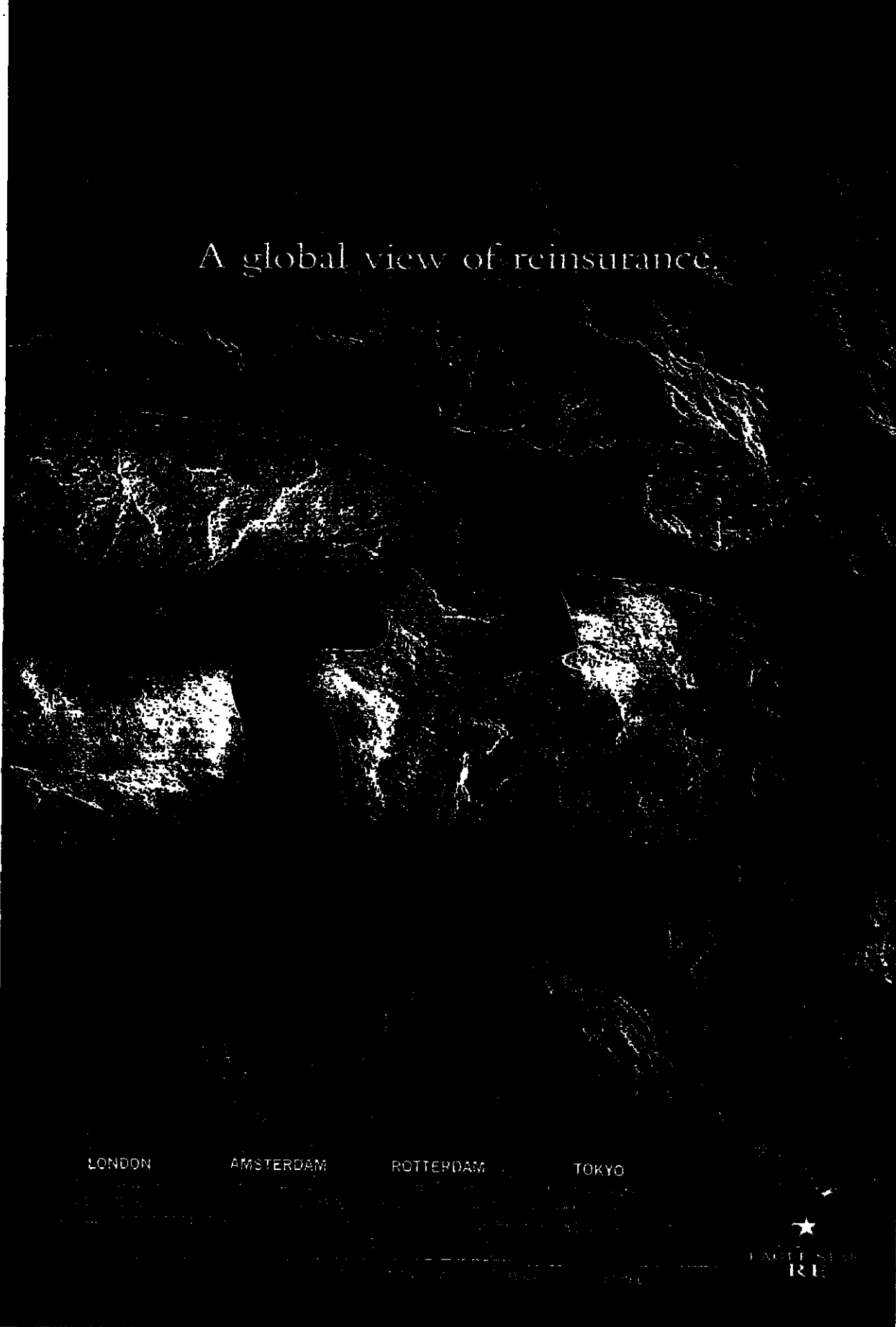


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Colmore Row, the traditional heart of Birmingham's business and financial centre

Inward investment • By Richard Wolfe

Seeking to break the mould

Peddimore, a greenfield site, north of Birmingham, aims to attract large projects

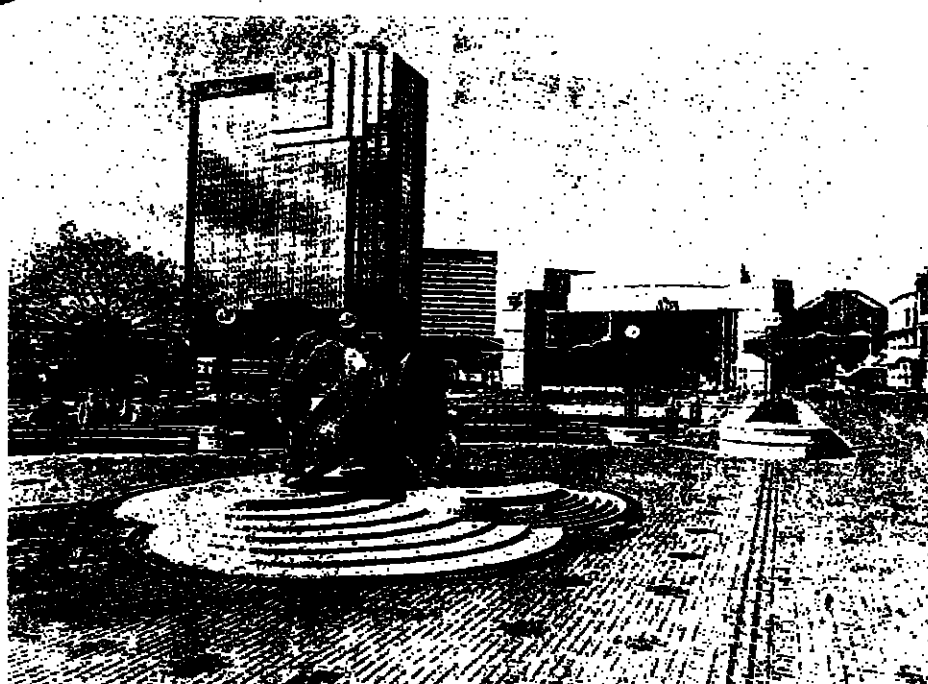
It may look like ordinary farmland at the moment, sandwiched between Birmingham and the prosperous suburb of Sutton Coldfield. But the 56-hectare site represents more than just a few green fields to either its neighbours or the business community in the West Midlands.

According to local councils and inward investment specialists, the fields near Peddimore are the region's best hope of winning a flagship foreign investment. In fact, such is the region's determination to win the investment, that Birmingham council has already granted planning approval for a micro-electronics factory on the site. A public inquiry in December will decide its ultimate fate. The council's decision was remarkable not just because of the strong political opposition it faces on environmental grounds. It was remarkable because no investor has yet committed itself to the area.

Birmingham's determination comes from a sense of lost opportunity. When Siemens was deciding where to locate a new £1.1bn (£1.7bn) semiconductor plant in the UK last year, it was close to choosing the West Midlands. But the lack of a suitable site - particularly a large greenfield site - meant the region lost out to North Tyneside.

Phillips, the Dutch electronics group, is one of half a dozen companies now considering Peddimore, which could create an estimated 3,000 jobs. But it is not just the employment issue which has fired the imagination of Midlands businessmen and political leaders alike.

Although highly industrialised, the region knows it is too heavily reliant on older businesses - especially those associated with metals and the motor industry. Inward investment represents the



In the foreground, central Birmingham's 'Spirit of Enterprise' fountain - behind it is the Hyatt Regency Hotel, directly linked to the International Convention Centre, and Centenary Square

West Midlands' best chance to break the mould with new companies.

Tony Bradley, policy director at Birmingham chamber of commerce, says: "We must attract a major single user of the size of Siemens, because of the trickle-down factor. These 'footloose' international companies attract suppliers who are also quality-driven and that gives the region that little bit of impetus to bring our skills levels up."

Some businessmen blame the lack of high-technology companies, including those in the biotechnology sector, for the low productivity in the region. Others point to the high-tech nature of today's automotive industry to argue that the region is already well-placed to serve an electronics investor.

The West Midlands is, in fact, a successful competitor in the race for inward investment, even without the addition of a semiconductor plant. Last year the region attracted 76 investment projects worth £240m, (\$1.3bn). Backed by a three-year award of £303m (\$469.6m) from the European Regional

Development Fund, the West Midlands consistently wins a fifth of all new foreign investment into the UK.

However, Paul Richards, chief executive of the West Midlands Development Agency (WMDA), said: "We are the most successful region in England in terms of the number of projects we win - but they tend to be relatively small, with on average 80 jobs per project. The really big projects traditionally go to Wales, Scotland, Ireland or the North East. But we would argue that we have a much more diverse economy, with a better manufacturing base, first-rate professional services and excellent universities."

The region is not just hampered by its simple lack of space, however. The drive to win inward investors has also been frustrated by a lack of cash. WMDA, which leads the region's quest for such projects, has an annual budget of around £1.1m - around 30 per cent lower than equivalent organisations around the country.

It is a problem shared with the Regional Supply Office

(RSO), which aims to source suppliers within the West Midlands - serving both inward investors and UK companies. Tim Roberts, director of the West Midlands RSO - which works from the same office as WMDA - says: "In the North East they spend more than £1.5m on RSO activities and win - but they tend to be relatively small, with on average 80 jobs per project. The really big projects traditionally go to Wales, Scotland, Ireland or the North East. But we would argue that we have a much more diverse economy, with a better manufacturing base, first-rate professional services and excellent universities."

With a budget of around £400,000, the RSO won £1.53m of business for local suppliers in its first financial year in 1995, and around £2m in just the first quarter of this year. But the work of both the RSO and WMDA will be severely restricted until the region concentrates its efforts - and cash - more efficiently. Even with a greenfield site available, the region could again lose to its rival regions.

"We have to work very hard to try to get overseas companies into the region," said Paul Richards. "With our limited resources, we just do not have the time to pull everyone together."

Financial services • By Richard Wolfe

Competition intensifies

Merchant banks feel the pressure as accountants, lawyers and stockbrokers act as financial advisers

On the face of it, Singer & Friedlander's decision to quit Birmingham at the start of the year seemed like a body blow to the region's financial services. One of the oldest merchant banks in Birmingham, Singers declared that the city was no longer profitable enough to justify its own operations.

In reality, Singer's move underlined not the weakness of the Birmingham market but the intense competition in a rapidly expanding marketplace. Birmingham's merchant banks have been squeezed out by its accountants, solicitors and stockbrokers, which are increasingly crossing over the traditional boundaries of financial services.

David Maxwell, chief executive of Birmingham City 2000, which represents the city's financial and professional community, says: "There is a question mark over why we do not seem to do well with merchant banking in the city. But in fact merchant banks have gone back to London to deal with the more complex deals because those in the accountancy profession have undermined them at the smaller end of the market. They have simply made it difficult for the traditional merchant banks to compete."

Birmingham's accountants have meanwhile concentrated on the smaller and medium-sized businesses - with a market capitalisation of between £5m and £50m - which are less attractive to their banking rivals. Larger clients still rely on City of London banks, and seem busy to travel to London to meet their advisers.

The result has been a

cross-over of staff - and clients - from banking to the accountancy offices, as the market in financial services evolves in the West Midlands. Where accountants traditionally only worked on due diligence projects, they are increasingly acting as financial advisers on the structure of acquisitions and flotations.

Charles Cattaneo, previously at BZW bank and now corporate finance director at KPMG accountants, says: "We aim to win clients who are not particularly lucrative for the banks because they do not do an awful lot of business. We also have a different way of doing things in that we try to be closer to our clients than the banks are."

"We give ad hoc advice, which our clients appreciate, in the same capacity as a

non-executive director. It is like being an additional board member."

However, the real driving force behind this evolution has been the sheer volume of deals in the corporate finance market. According to the Centre for Management Buy-out Research at Nottingham University, the value of deals in the West Midlands rose by 81 per cent last year to £807m, with management buy-outs leading the charge.

Part of this increase comes from the trends in manufacturing, where businesses are shedding non-core subsidiaries, and the market in acquisitions and management buy-outs has taken off.

But the growth also reflects the increasing level of power within the regions, as corporate financiers have been given the financial muscle to cope with even the

largest deals. At the same time, the city's larger solicitors have increasingly specialised in corporate finance work, alongside the accountants.

Roman McAlindon, regional managing partner of Arthur Andersen accountants - which has a strategic link with Garrett & Co, solicitors - says: "In the past, if the deals were big they were sent down to London, but now the financial services sector is so strong here that we can handle them all from Birmingham."

"This is how it should be, because the people involved are local and they want to have their advisers close to them."

The contrast with retail financial services in the West Midlands could hardly be more stark, however.

Among some of the region's best-known names, the climate of cost-cutting has led to substantial job losses. TSB has announced plans to close down its large administrative office in the centre of Birmingham, which employs 1,000 staff, following its merger with Lloyds Bank. Meanwhile, Britannic Assurance - one of the region's few life insurers - is also cutting its 2,100-strong sales force in line with many of its rivals.

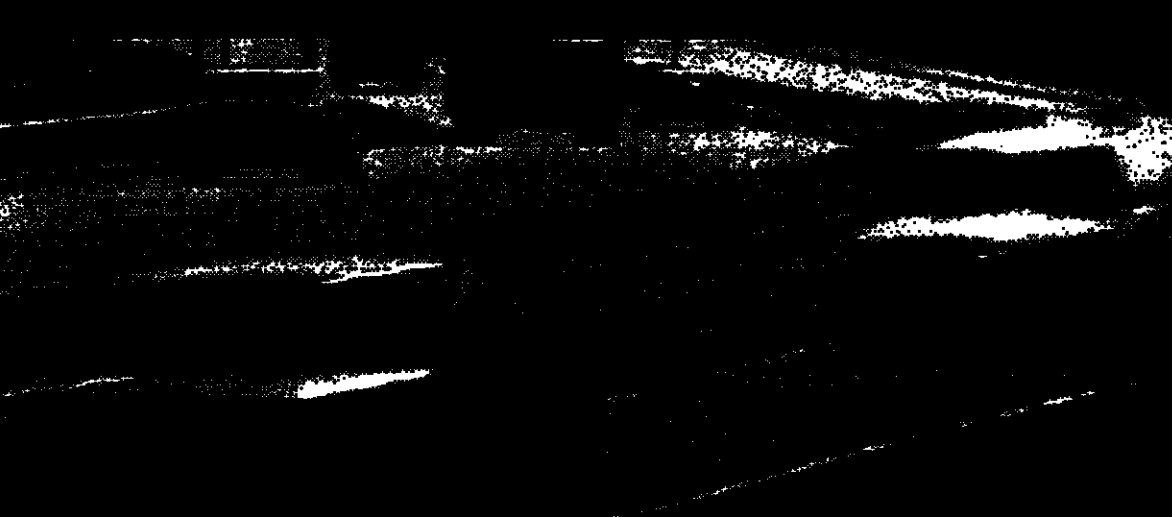
One of the few silver linings for retail financial services is the growth in "call centres" - the telephone-based operations of banks and insurance companies. Barclays' Coventry-based call centre, for instance, is recruiting around 200 staff to join its existing workforce of around 500.

Gary Hoffman, managing director of Barclaycall, the bank's telephone operations, observes: "We looked at the local labour market and it was the quality of the people that attracted us here. Our main constraint now is actually recruiting enough people. Getting 25 people in each month to the right quality is the thing that is difficult."



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4 BIRMINGHAM AND THE WEST MIDLANDS

Urban regeneration • By William Lewis

Heartlands being revitalised

While many sites have been redeveloped, there is still much to do

For Mr Don Scriven, chief executive of the Business Link organisation in Sandwell, hot weather is bad news. The smell from the canal which runs past his office is such that he is unable to open the window. Housed in the same building as Mr Scriven are the offices of the Black Country Development Corporation, which in 1987 was charged with developing and revitalising 26 square kilometres of derelict and under-used land in the West Midlands region, including the offending stretch of canal.

In March 1995, BCDC, along with other urban development corporations and City Challenge organisations, will close down. While BCDC's work has resulted in a considerable improvement in the local environment - more than 540m of public money will have been invested in the area by the time BCDC closes - the smell from the canal is picked on by some as evidence that there is still much development work left to be done in the West Midlands.

The question of what happens when the development corporations and City Challenges - set up to rejuvenate areas of high unemployment and neglect - close in just over a year and a half is one that is also occupying several other regions. However, in Birmingham and West Midlands the issue's importance has been magnified partly because of the success they have had in attracting grants from the government and European Union, as well as private sector investment.

states that growth prospects "for older industrial centres in the region - including the Black Country, Birmingham and Stoke-on-Trent - remain more constrained because of a lack of high quality sites".

Mr Jim Beeston, chief executive of the Birmingham Heartlands Development Corporation, says that over the last six years his organisation has pulled in more than 550m, including 540m from government and 54m from the EU.

As a result, BHDC has achieved a "dramatic change" in the Heartlands area, he says - "new investment has been attracted, jobs are being created and new housing is being developed".

BHDC's accounts for 1995-96 show that it spent 56.4m on land acquisition, 11m on land reclamation, 11.6m on roads, 5460,000 on environmental improvements, 2260,000 on community support and 2900,000 on supporting the private sector.

The Heartlands area has 24 per cent of Birmingham's industrial land available for development, even though it covers just 3.6 per cent of the total land area. Mr Beeston says that BHDC participated in the package of incentives which persuaded Ford to invest 530m into a new production facility for the new Jaguar X300 car. Ford's investment will create 1,200 jobs for Heartlands residents.

at an advanced stage and is due for completion next year. But it is the future, rather than past successes, which is occupying Mr Beeston. BHDC is in discussions with the city council and English Partnerships, the government urban regeneration agency, to "develop a successor body". Mr Beeston says that options include turning the BHDC into "some sort of trust, friendly society or joint company". He intends to commission consultants to advise on the handover process.

"Our work is probably about 80 per cent done," he adds. "There are a number of sites that need to be redeveloped".

At Walsall City Challenge, Ms Sarah Middleton is examining ways in which staff can be incentivised to stay on until it winds up in March 1998. Development corporations and city challenges have been expressing concern that they are likely to lose key staff in their last year.

Ms Middleton says: "It's a difficult time. There may be the issue of some sort of loyalty bonus, a cash incentive". However, "when 'push comes to shove' they [City Challenge staff] want long-term security".



Merry Hill Centre, Dudley - the UK's second largest shopping complex. The Black Country is developing fast, say local businessmen. Photo: News Team

The workforce • By William Lewis

Concern over skills base

Business leaders call for big improvements in training and education

The reputation of the West Midlands workforce is the stuff of legends. Tourist guidebooks tell how their extraordinary capacity for work helped fire the great industrial revolution.

When high productivity equated with brute strength and graft, rather than technical expertise, there were few areas more productive than the West Midlands. Birmingham became known as 'the city of a thousand trades'.

Although the coal-seams and ironworks are long gone, the West Midlands' labour force has become a victim of its own historical success. The region's continued reliance on traditional metal-based industries appears to have depressed the standard of skills among its own workforce.

For the West Midlands economy, this skills shortage threatens to undermine its ability to compete in global markets and expand into value added high-tech industries.

A recent study by the Confederation of British Industry shows that employers are not getting what they want from the education and training system in the West Midlands.

The study concludes that the changes in industrial working practices have not been matched by improvements in the skills base of the West Midlands labour market.

"At certain skill-levels, the West Midlands appears to perform below the UK average," the CBI concludes. Mr Jeremy Woolridge, the CBI's West Midlands regional chairman, added that "concerted and effective action is needed" in the "development of enhanced skills and training, which is a weak spot for the region".



The Forward State in Birmingham - once known as the city of a thousand trades, but changes in industrial working practices have not been matched by improvements in the skills base.

labour market, the CBI report makes several recommendations and sets a number of goals. They include: All children in the West Midlands should be competent in all core skills by the time they leave compulsory schooling. "Young people should leave foundation learning with a portfolio of national qualifications showing breadth and depth of learning," it says.

Links between education and business need to be improved, "to ensure that learners develop the knowledge, skills and attitudes to meet labour market needs".

The report states that one company told CBI researchers that "there is a lot happening which seems good on the surface, but the impact is very limited".

"The region needs to make a concerted effort to facilitate a learning culture within the West Midlands".

The West Midlands businesses surveyed by the CBI voted the level of skilled labour at school-leaver and technician levels as one of the worst in England, and said it was one of the area's biggest weaknesses.

ter at Sandwell Tec, says one of his organisation's most important tasks is persuading companies to try to accurately predict their staffing requirements over the next five years - "we spend a lot of time on research, trying to home down our provision to what is required".

One way forward can be found in the relationships which have developed in the West Midlands between universities and companies. In recent years, universities have become far more aggressive in developing their commercial activities, and businesses have become more attuned to the potential benefits that can arise from close links with academic institutions.

One of the best examples is the link between Rover and Warwick University's Manufacturing group. Rover managers regularly attend university courses and there

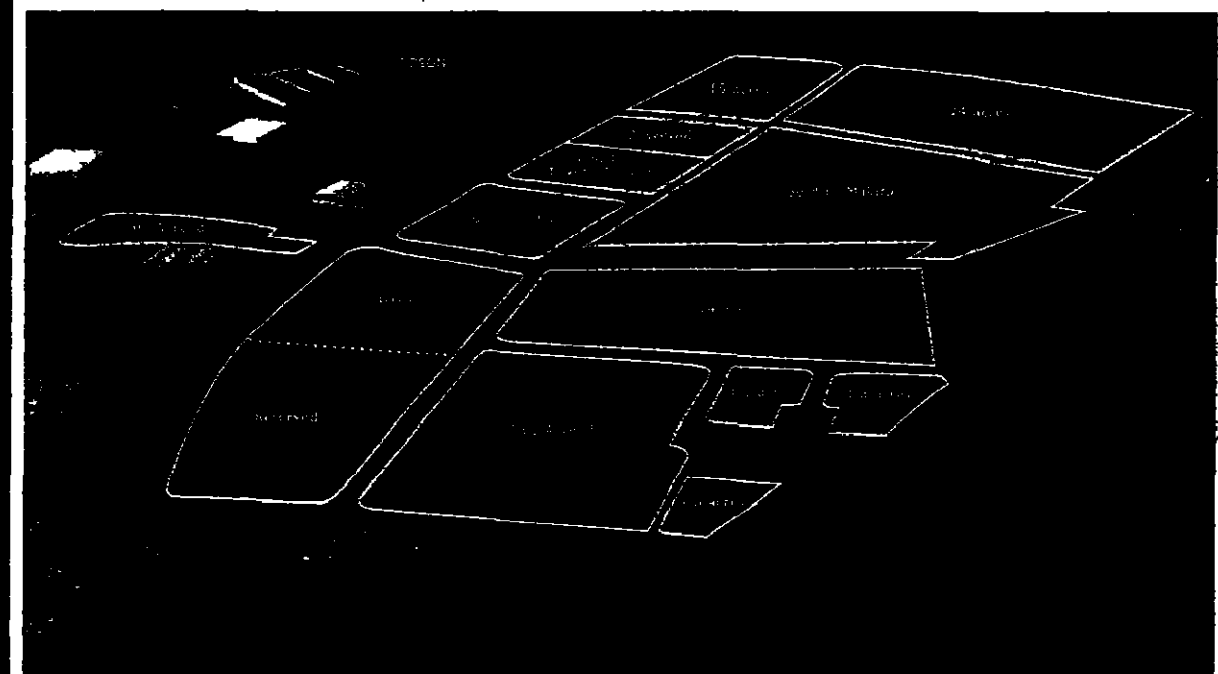
has been co-operation on improving manufacturing techniques. There is also a growing effort at other universities in the region - Aston, Birmingham, Central England, Coventry, Keele, Staffordshire and Wolverhampton - to become more involved with companies.

For Mr Don Richardson and Mr Roy Richardson, the twin brother property entrepreneurs, the key challenge for the region is how it encourages young people to become entrepreneurs. Roy says that the education system should enable young people "to be able to become entrepreneurs and business people in their own right".

The twins say they are prepared to put up £1m to help encourage entrepreneurs in the region - "we would like to see more entrepreneurs come forward," Roy says. "Without risk-takers, the country will slide".

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THIS WEEK

Belgians on the rack of conscience

Do not blame the perpetrators of evil. Blame those who look away and thereby allow evil to occur - Albert Einstein.

Today, this sombre epitaph for the horrific kidnapping and murder of eight-year-olds Julie Lejeune and Melissa Ruzo appears on posters, placards and pavements throughout Belgium.

For two years, similar posters have alerted the public to the disappearance of Julie and Melissa. Now, the long summer holiday is over, and *la grande rentrée* has brought with it not the straightforward story of two missing children but the brutal news of a kidnapping by a multiple rapist who allowed his victims to die a slow death of starvation in his cellar, and then buried them deep in cement in his own backyard.

The grisly charges against Marc Dutroux have fuelled an outpouring of national grief which has turned to anger and disillusion with Belgium's political and judicial establishment.

As so often in Belgium, where public confidence in institutions is shaky, suspicions are rife that Dutroux and his paedophile ring enjoyed protection in high places.

Many questions are unanswered. How could a felon like Dutroux own 10 properties and obtain loans from a bank? What exactly is the role of the detective inspector charged in the case? And what about the red motorbike found in the grounds of a Dutroux property, a motorbike which resembles the long-sought getaway vehicle used in the 1981 assassination of the Wallonian political boss André Coolex?

Charges of a cover-up have become common because of the indifference shown by the authorities toward the fate of Julie and Melissa. The two eight-year-olds went missing in June 1995. Their parents launched a

DATELINE

Belgium: child murder charges have fuelled anger and disillusionment with the establishment, writes Lionel Barber

In fact, the two girls were alive. They were being held in isolation in one of Dutroux's safe houses, just 50km from their homes. Dutroux was only apprehended last month after someone spotted his white van in suspicious circumstances and passed on the licence number to police. Nine people, including Dutroux's wife, Michele, and a high-ranking detective have since been arrested.

Why was Dutroux set free on probation after serving only a fraction of his original 14-year sentence, despite pleadings from his mother and strong objections from the local prosecutor's office? More intriguing, when he was arrested while on probation last year, why was he still allowed to walk free? And what was the purpose of his frequent journeys to the Casco Republic and Slovakia? The assumption in the Belgian

press is that Dutroux was at the centre of a paedophile ring supplying clients with expensive child porn videos. But last week, police diggers found the bodies of two other missing children - An Marchal and Eefje Lambreks - buried under a shed in one of Dutroux's properties. An and Eefje were 17 and 19 when he kidnapped them as they waited for a tram in Ostend, a year ago.

The age difference between the victims suggests that Dutroux and his wife were not just paedophiles, but were involved in a more general business of trafficking in female bodies.

The suspicion is that this sex trade is controlled by organised crime operating across national borders. The connection between Belgium and central Europe supports this theory, as does the evidence of co-ordinated car theft to cover the trail of

abductors and victims.

Whatever the truth, the Dutroux murders pose a fearful challenge to Belgium's criminal justice system which suffers from a lack of funds, poor organisation and political influence through the appointment of judges.

The most telling fact to emerge is that Dutroux and his wife were drawing BF70,000 (£1,458) a month in unemployment and sickness benefit while carrying out their horrific crimes: a little less than the average monthly wage of an investigating magistrate.

Despite the sense of shock in Belgium, ordinary citizens have drawn comfort from the conduct of the parents of the victims. They have behaved with extraordinary dignity and restraint, patiently waiting to sign the flood of petitions in favour of

reinstatement of the death penalty. At the funeral of Julie and Melissa, both francophones, the mourners broke into spontaneous applause at the appearance of the parents of An and Eefje, both Flemish speakers.

Such expressions of solidarity have restored a semblance of unity to a country where divisions over language and culture are as strong as ever. Recognising the national mood, King Albert II and Queen Paola finally agreed to meet the parents last week and pledged to support a full investigation of the Dutroux case.

The selfless conduct of the parents of the victims, and their quiet but insistent criticism of a system which failed their children and the rest of the country, has jolted the politicians.

Too often, Belgians pride themselves on their pragmatism and ability to strike a deal to overcome the linguistic divide. The fate of Julie and Melissa shows that society cannot live by compromise alone.

The Monday Profile: Leonard Lauder, Estée Lauder

Dynasty scents the future

Some children of corporate dynasties are loath to join the companies their parents founded, but not Leonard Lauder.

"I couldn't wait," draws the 69-year-old chairman of Estée Lauder, which was founded in 1946 by his parents, Estée and Joseph, and is now one of the world's largest cosmetics companies. "And I love it."

Although he joined the family firm as a graduate in 1958, Leonard only reached the top last September when his octogenarian mother took the title of founding chairman and he became chairman at 62. The promotion made little difference in practical terms - behind the scenes, Leonard has run the company for years - but Estée Lauder looks very different.

Since Leonard became chairman, it has made its first acquisitions by buying the Bobbi Brown and MAC beauty brands, and has also gone public by floating on the New York Stock Exchange.

So far, the results of this activity have been pretty successful. Bobbi Brown and MAC have thrived and the shares have soared, raising the company's market capitalisation from \$2bn (£1.9bn) to \$5bn. Yet in an ideal world, Leonard Lauder would have preferred not to have gone public.

Estée Lauder had long prided itself on being among the most private of privately owned companies and on growing organically by creating new beauty brands such as Clinique, Aromas, Origins and Prescriptives.

These launches required long-term investment that Leonard fears will be out of bounds now the company is publicly quoted.

"Reinventing ourselves with new brands was something I loved doing and it strengthened the company," he says. "Outside investors may be less patient with such large investments, knowing they won't see a return for five years."

Yet he had no choice but to go



Hilfing brand is virtually unknown in Europe.

"Do I have misgivings? Yes," says Leonard. "But we're a worldwide company and if I'd waited until Tommy was a household name [for fashion] in Europe, we'd have been launching Tommy I there when Tommy I was on sale in the US."

Meanwhile, the group is pressing ahead with other means of expansion: notably, a joint venture with Herbert Frommen, the German cosmetics executive, which Lauder likens to link-ups between Hollywood film studios and independent producers. He also has ambitious plans for MAC and Bobbi Brown, both of which were founded by professional make-up artists and achieved cult followings but lack the means to expand internationally until Estée Lauder's arrival.

However, the flagship Estée Lauder brand provided a significant chunk of the company's \$160m net earnings and \$3.2bn sales in the year to June 30. Last autumn Leonard Lauder relunched it with a new "face": Elizabeth Hurley, the actress whose modelling career got off to a shaky start after the Los Angeles police swooped on her boyfriend, Hugh Grant, and a Sunset Strip prostitute. Estée Lauder stood by her and, according to Leonard Lauder, she has since "done great things for us".

For the future, he envisages more acquisitions, finding new joint venture partners and clinching other licensing contracts, although Lauder declines to comment on speculation that he is about to announce a perfume deal with Prada, the Italian fashion label.

"We need new brands, that's the way forward," he says. "We're in a situation where one of our biggest problems is maintaining the balance of power with our retail partners, particularly in the US. I can do it, but only as long as I've got something new that they want."

Alice Rawsthorn

FT GUIDE TO Newspapers

Newspapers are finished, aren't they? Surely it's only a matter of time before they succumb to the threats posed by everything from 300 channels of television and hundreds of radio stations to the Internet?

Hardly. What is remarkable about newspapers in the UK is just how resilient papers have been when judged against the size of the extra competition they have faced. In the UK national dailies still sold more than 14m a day in the six months to July, a rise of more than 150,000 on the same period in 1995. The national Sunday newspapers, in spite of sharper declines, still sell an average of 15.4m copies - although the slide continues, particularly at the popular end of the market.

But what about the US? That's where all of the online interactivity is gathering pace and surely everything crosses the Atlantic in the end, doesn't it?

Things are not nearly that gloomy even there. Veronis Suhler, the investment bank specialising in the media, notes that between 1990 and 1995 daily newspapers in the US suffered a circulation drop of 0.9 per cent. Although virtually every significant title is online this development is still more about promotion than directly boosting revenue. Veronis Suhler forecasts that total spending on newspapers in the US will grow from \$50.4bn in 1995 to \$65.5bn (\$42bn) in 2000 - not bad for an industry supposed to be in terminal decline.

Some titles at least must be on their last legs? How about the Sunday Express and even the Daily Express for starters?

Once the skills are under a paper it is notoriously difficult to turn it around. Sacking the editor every nine months rarely works as a strategy. Still, Lord Beaverbrook's rightwing, rather jingoistic crusader may well be on the way back with the help of Lord Hollick, the Labour peer and the new chief executive of United News and Media. Lord Hollick's main strategy, announced last week, is to run the Daily Express and Sunday Express as a full seven-day operation under a single editor, Richard Addis, and plough the savings back into the papers.

But didn't seven-day operations fail at both The Daily Telegraph and The Independent?

The problem there, say Lord Hollick's men, was incomplete implementation. Whingeing journalists were listened to and separate editors were allowed to survive to fight for resources. At the Express there will be no fudging; this really will be a seven-day crew. After all, that's how the Washington Post is produced.

The Express plan is really only an elaborate cover for cost cutting? Certainly journalists wonder how editorial quality

can be enhanced by getting rid of 85 journalists out of 480, but then they would say that, wouldn't they? It is noticeable, however, that Lord Rothermere, proprietor of the Daily Mail and the Mail on Sunday, which have been wiping the floor with the Express titles, is not, as far as anyone knows, planning to move to a seven-day operation or sack 85 journalists.

Which national newspapers are the most obvious winners at the moment?

The papers that either have a clear niche purpose - such as the FT - or a well-defined and loyal readership - such as The Guardian - seem to be in the best position. The Independent can scarcely manage to get above 280,000 yet The Guardian is still selling close to 400,000 despite standing aloof from the price wars.

Are the price wars over now?

Rupert Murdoch is determined to keep The Times at a price advantage to The Daily Telegraph for as long as it takes. Watch for the end of the 10p Monday Times any day now, but the battle continues, albeit at a lower intensity. Below the parapet, more effort is going into promotion, building up databases on potential readers and tying readers into a title by offering highly discounted long-term subscription deals.

That's all very well but are you really saying ink on dead trees - and very expensive dead trees at that - can survive in the face of the all-conquering Web site?

The problem is still related to charging. Of course people are prepared to have a look at "free" information on the Internet. However, as soon as you start charging by the page the interest drops rapidly. More than 800,000 people are registered for the Electronic Telegraph - and 50,000 have registered since April for the electronic version of the FT - but it is still difficult to sell any money in spite of the appearance of a few advertisements.

Electronic publishing looks like a good way of extending the franchise and the brand internationally. It can also be used to tout for new subscribers to the real thing and to introduce the handy, flexible, portable newspaper to a new generation.

You haven't mentioned the regional papers? Life here is undoubtedly tough but those who have realised they have a strong local franchise and continued to invest in quality editorial are holding on best. The departure of most of the large media groups from the market - here again Lord Rothermere's Northcliffe group is the canny exception - and the sale of titles to groups specialising in regional newspaper management are part of a wholly beneficial trend.

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Robert Chote • Economics Notebook

Ballot box intensifies fiscal risks

Why politicians should be trusted with budgetary policy is unclear

The notion that politicians should not be trusted with the setting of interest rates has become received wisdom in the international economic establishment. Independent central banks are supposed to do the job instead. But if politicians cannot be trusted with monetary policy, why should they be trusted with budgetary policy either?

Manipulating fiscal policy is certainly tempting for a vote-grubbing government. Financing tax cuts or spending projects by increasing government borrowing in effect transfers income from future generations to the present. For those voters who are short-termist or less than wholly altruistic when it comes to the fate of their descendants, this is an attractive trade-off.

Another reason to be worried is that the damage inflicted by irresponsible fiscal policy is more difficult to undo than the consequences of reckless monetary policy. An interest rate cut is easier to reverse than a budget embroiled in legislation.

In Britain, the evidence suggests that the political timetable is indeed an important influence on fiscal policy. The government's budget deficit rose in each of the election years of 1983, 1987 and 1992, excluding "any change arising automatically from the state of the economy. Looking at the number of times that policy has been loosened and tightened since the Tories came to power, the odds against loosening having taken place by chance in each of those years are as high as 7-1.

The voters were also handed unusually large tax cuts in each of those election years. The average reduction was worth half of one per cent of national income, twice the average for non-election years since the early 1980s.

This has led to calls for curbs on the political manipulation of the budget process. In the latest New Economy, Simon Wren-Lewis, of Exeter University, proposes an independent body to provide the Treasury and the public with long-term assessments of trends in the economy and the government's finances.

In similar vein, a recent working paper by Alberto Alesina and Roberto Perotti at the International Monetary Fund calls for the creation of "an independent agency which supervises the accuracy and transparency of the budget, based on a set of reasonably defined rules". This reflects their belief that the complexity of modern budgets militates against their transparency.

"This complexity, partly unavoidable, partly artificially created, helps in various practices that 'hide' the real balance (current and future) of costs and benefits for the taxpayers," they argue. "Politicians have an incentive to 'hide' taxes, over-emphasise the benefits of spending, and hide government liabilities, equivalent to future taxes."

There are a number of "tricks" which finance ministers use:

- Overstate the expected growth of the economy, thereby over-estimating projected tax revenues and under-estimating social security spending. Massaging interest rate forecasts lower also reduces the projected cost of servicing the government's debt.
- Exaggerate the likely impact of budget measures. This might include over-estimating the potential revenue from a new tax, the likely gains from a "crackdown" on tax avoidance, or the impact of tax reforms on improving work incentives.
- Keep some spending offices that "hide" the real balance of budget by channelling it through public sector organisations outside the main budget.
- Make strategic use of multi-year budgeting, announcing fiscal packages in which all the tough policies come in later years. These can then be postponed in later budgets.
- Alesina and Perotti address some of these problems by arguing that finance ministries should be forced to use the economic forecasts of international organisations, such as the IMF or the Organisation for Economic Co-operation and Development, when drawing up their budgets for the year ahead.
- Wren-Lewis relies more on moral persuasion. He does not believe that Treasury ministers in the UK should be forced to accept the projections of his "Economic forecast and assessment office", but argues that they would be suspected of manipulation if they did not.
- There is no doubt that politicians do use fiscal policy in ways that are hard to justify economically, and that they often use sleight of hand to do so. But establishing an official scrutineer may not be the answer.
- One problem is that any given set of assumptions about growth, inflation and interest rates can be used - quite plausibly - to justify a wide range of outcomes for the public finances.
- Discretionary public spending may be relatively straightforward to forecast, but tax revenue

is not. And because government borrowing is the difference between these two very large numbers, the average errors in even the pre-manipulated, internal forecasts made by finance ministries are quite enormous.

Government spending and tax revenues are also rare among economic indicators in that the finance ministry actually possesses extra information which makes it better placed to forecast them than outside observers.

Since it would be difficult for the scrutineer to be given access to this information, it is hard to see why the job should not be done just as effectively in the UK - given adequate funding - by existing bodies such as the National Institute for Economic and Social Research or the London Business School, which stand at a greater distance from government. And for as long as the Bank of England lacks independence to set interest rates itself, the same could be said of its role as scrutineer of the government's anti-inflation policy.

Rather than have a watchdog which is compromised by its government-sanctioned monopoly status, why not spread financial support between a number of competing watchdogs and let the market decide which to trust?

At the end of the day, it may be true that politicians play fast and loose with both monetary and budgetary policy. But while the motives of independent central banks and budgetary watchdogs may be less suspect, they are not infallible. Quite rightly, voters will ultimately still hold the politicians to account.

BUSINESS EDUCATION

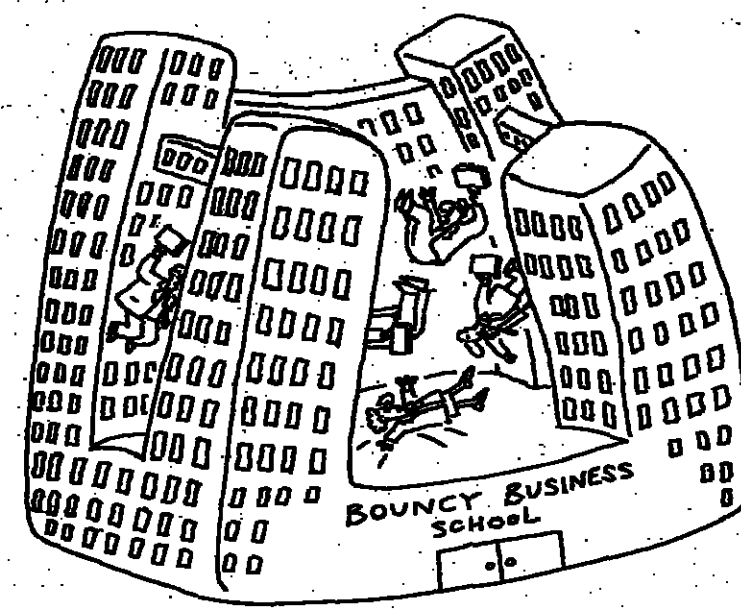
A good meal and a stylish suite are now the stuff of executive education courses, says Della Bradshaw

Creature comforts

While many an earnest business school applicant might look at the quality of the academic staff and research publications to determine a prospective alma mater, others may be more inclined to consider the selection in the mini-bar and the size of the swimming pool.

With European business schools earning an increasing amount of their income from shorter courses - and from increasingly senior executives - they are waking up to the fact, long acknowledged by their US counterparts, that a Spartan university culture no longer fits the bill.

delegates can bring their partners with them, especially if they are staying over a weekend. Other business schools push more traditional values, Ashridge Management College, also in the UK, likes to point out that its mansion house, set in a 150-acre Hertfordshire country estate, has, at various times over the past 700 years, been home to Benedictine monks, the English parliament and the present Queen Elizabeth (Princess Elizabeth, as she was at the time).



Drawing away the tensions

Change creates resentment, says Della Bradshaw

Does the thought of change in your organisation make you feel so angry that you want to take a bulldozer and smash down the walls - metaphorically speaking of course? Or does it all make you feel as if you are about to be swamped by an enormous tidal wave?

CONFERENCES & EXHIBITIONS

SCIP EUROPE BUSINESS ANALYSIS: THE EUROPEAN DIMENSION. A major international conference exploring the ways firms can improve Business Analysis to gain competitive advantage in an era of rapid change will be held in Vienna, sponsored by the Society of Competitive Intelligence Professionals (SCIP) and SCIP Europe.

DECEMBER 4-6 Venture Forum Europe '96. This year's Forum - the seventh in a series arranged by FT Conference and Venture Economics - brings together expert speakers to discuss the latest developments in the European venture capital marketplace.

OCTOBER 14-15 Evaluating Banks. A Course for Analysts responsible for assisting Bank Risk. Review of the regulatory environment and the analysis of Bank's financial statements.

UNIVERSITY OF LONDON The Centre for International Education in Economics. DISTANCE LEARNING QUALIFICATIONS. Postgraduates Diploma in Economic Principles. MSc Financial Economics/Management/Development Finance.

OCTOBER 21-22 IT in Unions Congress. The IT in Unions '96 Congress and Exhibition is the second forum of its kind for senior managers in the electricity, gas, telecoms and water industries to meet and discuss effective IT strategies for European utilities.

OCTOBER 21-22 Facility Documentation. Essential training for anyone involved in documenting overheads, losses and other facilities.

OCTOBER 18 Fabian Business Seminar. Regulation & Partnership: A New Approach. Labour & the future of Utilities.

EXHIBITIONS. OCTOBER 1-2 POWER '96 EXHIBITION. The 12th Independent Power Generation Exhibition for specifiers, purchasers, manufacturers or operators of power generation equipment and services in any organisation.

OCTOBER 22-23 Second Annual Russian Capital Markets & Investor Conference. An interactive conference looking at the post-election political and economic outlook for Russia. Topics to include: primary & secondary debt & equity markets, private equity investment, fund management, direct and project finance and a series of workshops with company & project presentations.

SEPTEMBER 18 Options Modelling. For individuals who are new to Trading or moving into Derivative Trading, Treasury Dealers, Graduates, Middle Office & Trade Support Personnel.

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ESC ROUEN PURDUE UNIVERSITY. Executive Master's Program. Dual degree MS/Executive MBA program combining American expertise and European multicultural diversity.

OCTOBER 22-23 Business Performance Measurement. A two day conference addressing the key issues in the implementation of business performance frameworks including practical lessons in the Balanced Scorecard, Process Benchmarking and Quality Approaches.

SEPTEMBER 22-25 Combating Financial Crime Workshops. Acknowledged as the definitive programme of interactive training in business in combating, investigating and deterring financial crime, commencing September 1996.

Savoir-Faire. 17 languages naturally, intensive weekly 1:1 European language courses and 100 words. Better than any other course, caring and attentive. Free sample CDs of Language Excellence.

Would speaking your customer's language have made the difference? Did your last meeting overseas go as well as you had hoped? No? Why not? Did you lose out to a competitor who did speak the language of the customer?

OCTOBER 24 Corporate Internet Strategies. Few companies really understood the ultimate impact of the Internet on their business and industry, however, most now realise they can get ahead to ignore this on-line-revolution.

SEPTEMBER 24-25 Understanding Treasury Derivatives. Training course covering risks in treasury markets and how derivatives can be used, Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products.

A Legal Quartet. This seminar will address the very latest issues on law subjects that are considered a must for purchasing professionals. This one day seminar will cover Contracts for Services, Employment Law, Environment Law and Intellectual Property.

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BUSINESS TRAVEL

Travel News - Roger Bray

No ticket to ride

Some passengers are still nervous of British Airways' first experiment with ticketless travel, which started in July. But while some are not completely happy without a conventional ticket, most are happy with the ease of booking with a credit or charge card, swiping that card through a machine at the airport, and receiving a boarding pass automatically. The scheme - available only to customers with no bags to check in - is being tested on flights between London Gatwick and Aberdeen. By

the middle of last month, 452 passengers - about 3 per cent of travellers on the route - had taken advantage of the scheme.

Carrier's class act

British Midland is attempting to put clear blue sky between itself and the new breed of low-cost carriers sprouting in Europe.

Industry observers expect an imminent announcement that it will strengthen its appeal to business travellers by splitting its cabins into two classes on

domestic flights. It already offers a separate Diamond EuroClass for European routes to premium passengers, and is planning to soup this up with extra luxuries such as wider seats and new airport lounges.

Crime alert

Violent crime is on the rise in the central American republic of Honduras, which is bordered by El Salvador, Guatemala and Nicaragua. The UK Foreign Office warns of a continuing increase in armed robbery, car hijacking, burglary and assault. Officials advise visitors not to wear jewellery or carry large

amounts of cash and to avoid travelling by road at night. Particular care, it says, should be taken in the poorer areas of the capital, Tegucigalpa.

Beat the traffic

A helicopter link is planned between Bangkok airport and the city's new Peninsula Hotel, which is due to open towards the end of next year. If the proposal goes ahead, guests will avoid a taxi ride which can take more than an hour. The Peninsula is being built on the Chao Phraya river, opposite the Thai capital's most illustrious hotel, the Oriental.

Always in touch

It's hard to give the office the slip at New York's Ritz-Carlton in mid-town Manhattan.

Guests staying in the hotel's Phoenicia suites are provided with a cellular telephone and calls to the suite are automatically forwarded to the mobile phone when you're out. Failing that, the office can send you a message on your private fax. What do you mean, you didn't get our message?

Wizard flights to Oz

Three airlines have agreed to offer a £745 return fare to

Australia via Hong Kong, Kuala Lumpur or Bali. Stopovers are allowed at each of those places.

The carriers are Ansett Australia, British Virgin Atlantic and Malaysia Airlines. The range of Australian destinations available depends on the route you take. You can fly via Kuala Lumpur for example, to Perth, Brisbane, Melbourne, Sydney, Adelaide, Perth and Darwin. But direct flights are also available to Perth, Adelaide, Melbourne, Sydney, Brisbane, Perth and Darwin. The return fare is £745, including taxes and airport charges. The offer is available from October 11 to January 11, 1997. Bookings should be made by September 11, 1996.

Likely weather in the leading business centres

Table with columns for city (Beirut, Damascus) and weather details. Includes Amman logo and phone number 0345 320100.

Poor communications and bureaucracy make eastern Europe frustrating, warns Scheherazade Daneshkhu

A porter? Sorry, they're all drunk

Travel is meant to broaden the mind but you may already need a broad mind to visit some of the world's newer business destinations. Imagine being asked to get up from your aircraft seat to help refuse the plane, or being told once you arrive at a hotel that you will have to find your room and carry your luggage because the porters are drunk in the basement. Business travellers to eastern Europe and the former Soviet Union have been greeted with such idiosyncracies, according to a survey of 500 UK executives conducted by Lufthansa, the German airline. The region has grown rapidly in importance as a business destination: equity investment inflows into central and eastern Europe and Russia rose from \$4.7bn in 1993 to \$12.1bn last year, according to the Washington-based Institute of International Finance. However, a quarter of those surveyed found travelling in the region difficult and a third said it was frustrating. Almost all agreed

that facilities for business travellers should be improved. One banker who visits the region frequently says conditions are generally getting better, with some of the national airlines providing good value for money. However, travel becomes harder the further east you go. "Central Europe is not very different from travelling around western Europe; it's easy to get around town and the hotels are good. I cannot say the same for some other countries and in Russia, which does have some very good hotels, they are very expensive." The survey found Poland was the most common destination followed by Hungary and the Russian Federation. A common complaint was of poor communications with more than half the executives reporting that telephone lines frequently did not work. Just under 40 per cent said no telephone or fax was available when needed and 28 per cent said they had difficulty making internal calls. The cost of telephoning was also a problem; one executive found that his

Prague telephone bill was higher than the hotel bill for four nights accommodation. Of those that took a taxi, almost two-thirds believed they were overcharged. Just over 40 per cent of those that hired a car reported bad road conditions. Travel was not the only obstacle. Just over 55 per cent of those surveyed complained that bureaucracy was a problem, and two-thirds said corruption was also a barrier. Lack of knowledge of local customs and the language was also a source of embarrassment. Most travellers did their research on local customs by talking to colleagues or reading guidebooks. Meetings are more frequent, they tend to go on for longer and to be attended by more people. Socialising is more important with more drinking involved, the survey found. Despite the frustrations, only 10 per cent of travellers said they would give up going to the region and only 5 per cent felt unsafe when travelling in eastern Europe. Lufthansa, which has published an 84-page guide to

Getting by in eastern Europe

Infographic grid with map of Eastern Europe and text boxes for various countries: Poland, Lithuania, Latvia, Estonia, Russia, Ukraine, Czech Republic, Slovakia, Hungary, Serbia/Montenegro, Bulgaria, Romania, Turkmenistan, Kazakhstan, Uzbekistan. Each box contains cultural and business tips.

business opportunities in eastern Europe, intends to issue quarterly information bulletins as a response to another survey finding - that half the travellers were not provided with information

on the region by their travel agent. The airline has increased its flights to the region in what is becoming a very competitive market. Austrian Airlines, Swiss Air, SAS and British Airways are among those that have also expanded their network in recent years. Business travel agents said national carriers, such as Poland's LOT and Hungary's Malév, have

also improved their services. Mr Frank Zehle, marketing manager at Lufthansa for UK and Ireland, said air travel to the region was increasing by between 10 per cent and 15 per cent a year, compared with between 5 per cent and 6 per cent for western European countries. However, the growth is slowing - three years ago it was closer to 25 per cent a year.

Large advertisement for Cathay Pacific featuring a stylized bird logo, the word 'CHOICE', and the slogan 'The Heart of Asia.' Includes the text 'CATHAY PACIFIC' and 'Social Housing' on the right edge.

مكتبات الاصل

MEDIA FUTURES

Electronic undesirables

SE Asian states are divided on how to police the Internet, James Kynge writes

The waiter at a Singaporean cyber-space cafe exhibited exactly the sort of tendencies his government is trying to curb. As I chatted innocently online with a local person, the waiter came over and stood behind me.

"Boring," he said. "Singapore chat-lines are always boring. If you want real dirty talk, you should try the United States."

I had not asked for anything pornographic, but the waiter seemed certain that that was what I wanted, so he swung my keyboard towards him and started tapping. He was out of luck. All lines to the US were engaged.

Singapore's government would have been dismayed - even shocked - by the waiter's behaviour. While claiming that it wants to embrace the information age wholeheartedly, the government has been attempting to insulate its island-state from undesired western influences.

If it can, the government particularly wants to keep out pornography, hate mail, politically hostile material and other influences that could erode the citizenry's standards of personal decorum and respect for family and state.

As Lee Kuan Yew, the government's senior minister, put it with characteristic (if puzzling) precision last year, Singapore wants western influence in the city-state to diminish from 60 per cent now to 40 per cent in 20 years' time. There will be a corresponding renaissance in Asian values, he predicted.

Last week, Singapore hosted the first effort by south-east Asian countries to formulate a common approach to the "perils" posed by the Internet. The seven member nations of the Association of South East Asian Nations (Asean), a grouping which comprises over 400m people living in one of the world's fastest-growing regions, met in a hotel a few streets away from the cyberspace cafe where the waiter had tried to introduce me to US lustfulness.

But hopes of achieving a common policy for regulating and policing the south-east Asian loop of the global information superhighway foundered. Despite Singapore's insistence that Asian values are shared throughout the region, it was the diversity of attitudes among Asean countries which made any common approach to the Internet elusive. Asean's



members are Singapore, Malaysia, the Philippines, Thailand, Brunei, Indonesia and Vietnam.

The Philippines and Thailand took the most liberal stances, calling for self-policing by Internet service providers and minimal government intervention. Glenn Siplu, deputy executive officer of the Philippine Council for Advanced Science and Technology, said his country was committed to freedom of speech on the Internet, adding that there would be no censorship of political material in his country.

Malaysia and Indonesia said they would study further what steps could be taken in the direction of self-policing, but did not commit themselves. Indeed, a joint communiqué issued at the end of the three-day conference made a substantial concession to individualism.

"The forum agreed that the appropriate regulatory framework would depend on the culture and legal system of each particular country," it said.

Alone in Asean, Singapore has taken a systematic

approach to regulating the Internet. From next Sunday, it will require 120,000 individual subscribers to route their requests for access to Internet sites through "proxy servers". These large computers, estimated to cost the government \$8200,000 (\$91,000) each, will check requests for access against a blacklist of sites containing objectionable material. Once they spot a request for a banned site, they will block it.

The government said that the servers, which are not mandatory for business users, would speed up the use of the Internet. Technical experts disagreed, saying that the time it would take the servers to check material against the blacklist would cause delays.

The fact that, so far, the other Asean countries are showing less regulatory vigour than Singapore does not necessarily mean they feel less strongly about the threat to their societies from alien influences.

Stephen Leong, assistant director-general of the Institute of Strategic and International

Studies in Malaysia, said the Internet posed a challenge to one of the fundamental principles upon which the political order in Singapore and Malaysia was founded.

In Malaysia and Singapore, he said, some individual freedoms of expression had to be sacrificed for the benefit of society. For example, most people in Malaysia who remembered the bloody race riots of 1969 did not find it difficult to accept that it was illegal to publish material which could incite racial disharmony.

But with the anonymity which the Internet provides, officials acknowledge, there is a risk that racially divisive material could proliferate in cyberspace. Indeed, some other regulations have already been rendered obsolete. Malaysia proscribes the circulation of Singapore's newspapers, but any Internet subscriber can now read most Singaporean newspapers as soon as they are published.

Similarly, foreign newspapers have to be cleared each morning by a censor before

they can be distributed in Malaysia, but these same newspapers can be read on the Internet before the censors see them.

Observers say that the reason countries such as Malaysia are reluctant to regulate the Internet - beyond ordering service providers to block a few Web sites - is that they believe that their commercial future hinges on Internet technology.

There are 1.5m Internet subscribers in Asia, and the number is reckoned to be growing by 10 per cent each month. In several Asean countries people are already shopping, banking and advertising over the Net.

Last month, Mahathir Mohamad, Malaysia's prime minister, launched his bold plan yet: a scheme to attract foreign media, software, information technology and manufacturing companies to a "multimedia supercorridor" in an area of 750 sq kms near the Malaysian capital, Kuala Lumpur.

He said that new laws more liberal than those that apply to the rest of the country would exist within the corridor, and he pledged that there would be no censorship. It was clear he had decided that Malaysia cannot afford a reputation as a heavy-handed censor and regulator of information if it is to attract foreign investment crucial to the corridor project.

But the most striking conversation has been that of Anwar Ibrahim, Mahathir's deputy prime minister, who started his political career as an Islamic firebrand with fundamentalist beliefs. At a conference to launch the supercorridor idea, he recalled the young woman who streaked across Wimbledon's Centre Court before the men's tennis final to illustrate his belief that when regulations fail, the result is not always unpleasant.

"Everyone was clapping, and I clapped too," Anwar told the conference. "The police came and took her away. But I am glad to say that they let her go without charge."

Tim Jackson

OfTel's irregularity



SOME weeks ago, OfTel's telephone regulator, OfTel, published a consultative paper on the renumbering of area codes.

The document produced angry responses from people who failed to see why, after two large-scale renumbering operations in recent years, a third should be necessary so soon - and why, if the US can operate on a simple system of three-digit area codes and seven-digit local numbers, the much smaller number of telephones in Britain requires a confusing mixture of codes, some of which are longer than others.

The paper itself provides no convincing answer to either of these questions, other than a mixture of regulatory incompetence and an attempt to arrange area codes so that they reveal to the customer what the call will cost.

Since Britain now has dozens of different call rates, this attempt is probably doomed - and probably unnecessary, because it would be far simpler to tell customers what it will cost to make a call by allowing them to punch in a short code followed by the number itself.

What fascinated me most about the document, however, was the process I went through to obtain it. It was actually delivered to my house by hand by a kindly OfTel employee, partly because of a postal strike and partly because the paper was not expected to be on OfTel's site on the World Wide Web for another two weeks.

To US readers, it may sound hard to believe that in the field of telecommunications, where interested parties are spread across the world and many have access to the Internet, a public document should appear on the instantaneous, low-cost Web some

time after its publication in print.

OfTel, like other British government departments, uses a curious system for publishing on the Web which has lessons for any organisation, private or public, that is taking its first steps online.

Every time OfTel wants to put a document on the Web, it sends it to a body called the Central Communications and Telecommunications Agency, more than 100 miles away. This agency, which deals with 115 public sector organisations and 80 government departments, then publishes the paper on its own site, *www.open.gov.uk*, at no cost to OfTel.

After looking at OfTel's Web site and what it does, my conclusion is that this approach is a blind alley. The first and most obvious problem is inefficiency. A delay of two weeks in publishing a report online may not sound much, but it is enough to make most potential readers choose the paper version instead.

In some cases, such as press releases, a delay of 24 hours can be enough to render the online information useless to the people it is intended for. Any one of dozens of small Net consultancies could provide OfTel and other government departments with a swift service at a very modest cost.

But there are bigger issues at stake. Although the range of information on OfTel's Web site is superficially impressive - police lists of Top 10 stolen vehicles, minutes of meetings between the chancellor and the governor of the Bank of England, a traveller's guide published by Customs, a report on the health of the nation - it is deficient in a fundamental sense.

An important feature of the Web is that it removes intermediaries from the process. It allows individuals in organisations to publish so easily that it is quicker to post a document on the Web than to have a meeting about whether it should be posted.

When a body like OfTel is introduced, however, the process becomes just like existing paper publishing. It is no wonder that the site lists its principal resources as "ministerial speeches, press notices, and statistical data"; these are exactly the kind of documents that government publication departments have been pressing on a reluctant public for decades.

Another feature of the Web is that it is becoming a two-way medium. New technologies allow Web pages to consist not of documents whose contents are frozen in advance, but of information that is gathered from a database specifically for a single reader.

Online brokerages invite buy and sell orders across the Net. Federal Express offers customers the ability to trace the journey of a lost package. Booksellers allow people to send a book to a friend, and choose the paper it is to be wrapped in.

Companies across the world are learning, in fits and starts, how to take advantage of this new medium. By contrast, a system built on the OfTel principle isolates its government clients from the pressure to keep up with these changes.

According to one of OfTel's Web pages, Britain is involved in a G7 project to bring governments online. A measure of how slow and outdated the thinking behind this project is can be seen from its ambition to produce "measurement results by 2000".

The best advice to other governments would be to avoid the OfTel system, avoid the G7 programme, and make each department do everything directly. The process will yield mistakes and embarrassments before results.

But within a year or so, it will put them online more effectively than any hand-holding system can.

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Cyber sightings

- One site well worth a visit is that of CIT Research, which specialises in international communications. The site (www.citrsearch.com) gives details of developments in the sector. The "Statistics of the month" feature is very good, currently focusing on the future of data network standards - and the site is in English, French, Spanish, German and Italian.
- The International Federation of Training and Development Organisations is holding its annual conference in Egypt from November 4 to 7. The theme: "Designing the future." Details can be found at www.team-international.com/ifdo/index.html
- Navio (www.navio.com) is a venture led by Netscape aimed at extending the

power and potential of Internet technology to a mass-consumer base through non-PC devices such as telephones and set-top boxes.

- The Washington DC-based Congressional Institute (<http://server.congress.org/coninst.org>) helps activists and general readers understand public policy debates. Likewise, the Electronic Policy Network's Idea Central site (<http://epn.org>) is clever, well designed and full of excellent content. Definitely worth bookmarking.
- The Stockhouse Online Journal (www.stockhouse.com) has news and analysis of US small capitalisation stocks and general business roundups, as well as links to cool financial sites of the day. Worth per-

severing with since (as with many Frames-based sites) initial connections can be unpredictable.

- Compulsive stuff, eavesdropping on Net searches... Magellan's Voyager (<http://voyager.mckinlay.com/eng/eng/voyager/FT>) gives you a random selection of 20 searches being carried out on the Magellan search engine. A fair proportion of the sites sought are erotica related, but it is fascinating to glimpse what other weirdness abounds. stev@mcgcook.demon.co.uk

FTid - The Internet Directory

The following companies want you to know that you can find out more about them by simply looking them up on the World Wide Web.

All these can be accessed via hyperlink directly from the Financial Times at <http://www.ft.com>

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<p>The Financial Times plans to publish a Survey on Social Housing</p> <p>on Thursday, September 19.</p> <p>Covering developments within both the Housing Association and Local Authority Housing movements as well as profiling innovative lenders in the face of further cuts in the Government grant. This survey will coincide with the N.F.H.A. Annual Conference, with special distribution to all delegates.</p> <p>For further information please contact:</p> <p>Alan Cunningham on 0171 873 3206 or Fax: 0171 873 4296</p> <p>FT Surveys</p>	<p>The Financial Times plans to publish a Survey on Finland</p> <p>on Friday, October 20.</p> <p>The survey will focus on the economy; politics, foreign relations and unemployment. On the commercial side, the focus will be on Banking, Industry, Forestry and Food and Wholesaling.</p> <p>With its 10 print centres worldwide and availability in 160 countries, it's not surprising the FT has the highest readership (46%) amongst the Chief Executives of Europe's largest 2000 companies* and is the 'favourite' amongst the world's financial directors' (readership of 72%)*.</p> <p>* Chief Executives in Europe Survey 1995 ** IBO Bank, Readership Survey 1995</p> <p>Contact Representatives:</p> <p>Felicja Kay in London on +44 (0) 171 873 4199 or Fax +44 (0) 171 873 3204</p> <p>Bradley Johnson in Stockholm on +46 8 791 2345 or Fax +44 8 791 7960</p> <p>Or your usual Financial Times representative</p> <p>FT Surveys</p>	<p>The Business Forum</p> <p>Home of:</p> <ul style="list-style-type: none"> ● CBI ● Chambers of Commerce ● Best Practice <p>for the best business solutions</p> <p>http://www.businessforum.co.uk</p>

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APPLICAZIONE

SPORT

Michael Thompson-Noel

Rugby union's fumbled professional conversion

Following the absurd twists and turns that characterise English rugby union's attempts to get to grips with professionalisation can damage your health. To plot the twists on a daily basis would destroy billions of brain cells, so I don't. Instead, I take a peek now and then at this peculiar and most primitive of sports.

Today, in Dublin, details of an agreement between England, Ireland, Wales, Scotland and France are due to be revealed, marking an end for now to the row over the English Rugby Football Union's deal with British Sky Broadcasting concerning satellite TV screening of the Five Nations championship from next season.

Cheekily, the other four had threatened to kick England out of the competition if it did not give them more of the money it was receiving from Sky, even though a Four Nations championship would have been woefully inept.

With luck, the controversy over England's Five Nations satellite cash has been resolved, at least until the next time. But the sport in England is still suffering other stresses.

In particular, a struggle for power between the RFU and the leading clubs has underlined the lack of readiness with which the RFU stumbled into the professional era.

As usual, newspaper readers are being offered violently different interpretations of unfolding events. English sportswriters come in two main types: those who profess to hate the impact money and commercialisation are having on sport, and those who don't.

In the Daily Telegraph last Thursday, Paul Hayward supplied a fine example of the ostrich school of sportswriting. "The most convivial and civilised and unpretentious of British ball games," he wrote, "is scrab-

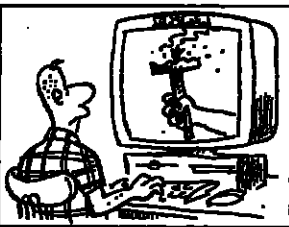
bling in the muck for money... Call it romanticism if you must, but rugby union was... about bonhomie and drunken trips and frost-bitten fingers curling round pints on bitter winter Saturdays... [Now it is becoming] indistinguishable from all the other over-commercialised sporting junk being shoved into our homes."

In contrast, the far more sophisticated Stephen Jones, in yesterday's Sunday Times, said that professionalisation was not to blame for the sport's ills. What rugby union was still suffering from was amateurism.

In the southern hemisphere the sport had embraced professionalism joyfully, "making the game cleaner and more spectacular and more profitable," he wrote. Compared with the New Zealand union, for example, England's RFU was a preposterously structured body "with not a scrap of representative relevance to the modern game".

To save 30m brain cells, I think I'll stick with Jones.

The bomb blast and organisational chaos that scarred this summer's Olympic Games in Atlanta seem to have convinced Swedes that it would not be a brilliant



idea for Stockholm to host the 2004 summer games. A survey of 1,100 Swedes carried out late last month found that opposition to hosting the Olympics had jumped to 52 per cent. Before Atlanta, only one in three Swedes was reckoned to be against staging them.

"It is the effects of Atlanta, all the bad press," Olof Stenhammar, who is spearheading Stockholm's bid, told Swedish newspapers. An International Olympic Committee team is due to visit Stockholm this month to assess the city's plans.

However, the Swedes' fastidiousness will not prevent the struggle for the games of 2004 becoming even more tumultuous than the contest for the games of 2000, won by Sydney. The other 2004 bidders are Athens, Rome, Cape Town, Buenos Aires, Rio de Janeiro, San Juan, Sevilla, St Petersburg, Lille and Istanbul.

Meanwhile, International Business Machines is trying to put a steel-capped smile on its misfortunes in Atlanta by combining with North America's National Hockey League to form an enterprise called NHL-ICE, which will upgrade the sport's ancient scoring system, build a digital library and extend the league's presence on the World Wide Web part of the Internet.

Starting with the 1996-97 season, the NHL will use four scorers at each game to chart the action on laptop computers and send results to an IBM database - ho, ho, ho - which will then feed them to the Internet.

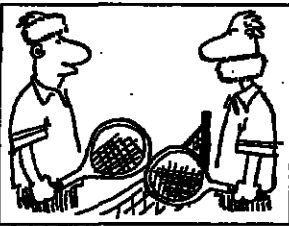
A league spokesman said he was satisfied there would be no repetition of the IBM fiasco that upset the flow of results to the media in Atlanta a month ago. Richard Selva, general manager of IBM Media and Entertainment, added that the faulty results system in Atlanta was only one of many systems IBM had in place during the games.

"Unfortunately, it was probably the worst one we could have had a problem with. In the case of the NHL, we've tested this system at Stanley Cups and elsewhere, and it's worked very well and we're very comfortable with it. Besides, this is a

much smaller system than we had at the Olympics." The league's Web site is at <http://www.nhl.com>. The library is under construction and will eventually offer digitised replays of all games. Some of the library's material will be available via the Web.

If Goran Ivanisevic did not exist, tennis would be indescribably poorer. The Croatian was in fine form and voice last week as he powered through the later stages of the US Open in New York. "Whoever wants to beat me, the guy has to play unbelievable," said Ivanisevic, who was seeded fourth and whose four-set win against Russia's Andrei Medvedev lined him up for a quarter-final clash with Sweden's Stefan Edberg, playing in his last grand slam event.

"I said that if I reach the second week I can do a lot of damage in this tournament," said Ivanisevic. "That's what



I am doing now. I'm playing better and better every match." In the event, the whipper-thin Croatian beat Edberg 6-3 6-4 7-6, having served 28 aces, though he reckoned he had "played not great tennis" against the Swede. On the other hand, he had stayed "very cool", even when the notorious NY crowd got behind Edberg in the tie-break.

Ivanisevic has a long history of talking to himself. "The second week, usually I was coming here to pick up my prize money and leave. When I came here today I said: 'What are you doing here?' Then I said: 'OK, you



Leicester's Eric Miller being tackled by Bath's Martin Haag on Saturday. Rugby union faces many crunching challenges

play." It is coming to my mind that I can do well. The country, the [playing] surface - now I start to like it more and more."

Because of his volatility, Ivanisevic has often clashed with officials. Usually, he says, he voices his most colourful descriptions of umpires' ineptness or opponents' intelligence and antecedents in Croatian. And, deliberately, he waits until there is a lot of noise - shouting, applause - among spectators before muttering his choicest epithets and rustic proverbs.

But he ought to be careful. He may not know it, but the people who run tennis have got a little book that lists all swear words (well, a good number of them) in many languages, expressing to catch comedians like him.

Anyway, the Croatian's luck ran out in the semis, where he was beaten 6-4 6-7 6-3 by Pete Sampras, the defending champion and chief boy scout of America. Sampras had been fit on court in the previous round.

"I knew he was going to be strong," said Ivanisevic. "He only threw up. He didn't die."

Top soccer managers have to cope with extreme pressures, which may explain Roy Hodgson's hostage-to-fortune remarks in the run-up to the start of Italy's Serie A season. After a free-spending summer, English coach Hodgson is at the helm of an Inter Milan team growing with talent, with players from eight countries and three continents to choose from.

They include Chilean Ivan Zamorano, Argentina's Javier Zanetti, Aaron Winter of the Netherlands, France's Youni Djorkaeff and Jocelyn Angloma, Cristiano Ronaldo of Switzerland and England's Paul Ince.

Inter still has some top Italians on its books, including strikers Marco Branca and Maurizio Ganz, but there could be times this season when the club fields as few as four Italians.

Hodgson says: "At the moment the squad looks good. As far as I'm concerned, we lack nothing. There's no player that I would really have liked that we haven't got" - an astonishing thing to have said.

Club president Massimo Moratti has said he expects a decent return on his investment in the shape of the Scudetto (title shield), which has been won four times in the last five seasons by arch rival AC Milan.

Not surprisingly, the Gazzetta dello Sport maintains that Hodgson now has no excuses. If Inter does not win the title, it says, it will "be hard to blame anyone other than the coach". To Hodgson's relief, Inter won their opening game on Saturday night, beating Udinese 1-0 with an early goal by Storza.

Britain's bookmakers have never lacked chutzpah. Take Frank Bruno, the British boxer (recently retired) who made them more money

than even they thought possible. "We won millions thanks to Frank, and are devastated he has had to hang up his gloves," says Graham Sharpe, spokesman for William Hill, one of the UK's Big Three commercial bookmaking firms.

"Frank was so popular with the punters that they plunged absolute fortunes on him when he fought for the world title against Tim Witherspoon, Mike Tyson and Lennox Lewis - and lost all three. They didn't quite believe he would beat Oliver McCall, so didn't back him very heavily, and of course he won. That victory encouraged punters to back Frank to beat Tyson the second time, with disastrous results."

But Hill is keen to wring a few more pounds out of poor old Bruno. It is offering 5-1 against him being knighted in the next New Year's honours list, and 85-1 against him being named BBC TV Sports Personality of the Year. Ridiculous.

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INTERNATIONAL ARTS GUIDE

AMSTERDAM

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مكتبة الامير

ARTS

INGS
RENÉ

MANCHESTER
Richard York, Manchester's new 24th concert hall, will be inaugurated by the Halle Orchestra on Wednesday. Heri-
Bogano conducts the first two concerts, featuring new works by Thomas Adès, George Benjamin and John Adams (soloist). The opening week also includes performances by the BBC Philharmonic and Chicago Symphony Orchestras.

LEIPZIG
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Bogano conducts the first two concerts, featuring new works by Thomas Adès, George Benjamin and John Adams (soloist). The opening week also includes performances by the BBC Philharmonic and Chicago Symphony Orchestras.

WASHINGTON
The National Symphony Orchestra, under the baton of conductor Leonard Slatkin, will perform a series of new works by American composers on Thursday. The programme includes the premiere of a new work by Claude Richey, which succeeds William

NEW YORK
City Opera's 1996-7 season begins on Thursday with Verdi's *Aida*, starring Sherill Milnes. The season also includes new productions of *Gianni Schicchi* and *Il Trovatore*. The Metropolitan Opera will also perform *Il Trovatore* on Thursday.



Male swans take flight again

Matthew Bourne's *Swan Lake* opens for an extended West End run this week, Alastair Macaulay reports

Before he was a dancer or choreographer, Matthew Bourne was a fan. Now 36, he recognises some of the fans who stand at the stage doors today from 20 years ago. Although he remains wryly "I think I might have grown out of it", he observes that he is excited by "the possibility of working with people I've admired".

The great ballerina Lynn Seymour came to ask to work with him after seeing, three times, the hit version of *Swan Lake* he made for his own company Adventures in Motion Pictures last year. Now she is learning the role of the Queen, for performances during its West End run.

In August, Baryshnikov - who, 19 years ago, was Romeo to Seymour's Juliet - came to watch a rehearsal. He told Bourne "you've made me fall in love with *Swan Lake* again" and said the dancers were "phenomenal" - he is flying over to see a performance next month. Baryshnikov has also asked Bourne to choreograph a piece for him and for the White Oak Dance Project, which he directs.

This *Swan Lake* had its genesis, however, in Bourne's admiration for a much younger dancer, Adam Cooper, 25, of the Royal Ballet. Bourne dared to envisage Cooper - an intelligent, tall actor-dancer with a remarkably fine use of the upper body - as the Swan: the ambiguous Romantic ideal at the core of this work.

"The reason Adam is so perfect is that he's a masculine presence onstage, attractive and mysterious. One, and his arms are wonderful. He was, I felt, some sort of creature from another world."

One of Cooper's first ideas for this *Swan Lake* was to use Fiona Chadwick, as the production's Queen. Chadwick is an experienced ballerina whom the Royal Ballet in its inscrutable wisdom made redundant.

"She was fantastic. When we were working on the Act One duet, I wanted her to look back at her son. We came up with three different looks, and she did them all perfectly. But it was the one she had thought up that I loved, and that's the one we kept."



Creature from another world: Adam Cooper, intelligent and powerful as the swan (inset, Matthew Bourne, choreographer)

between the Prince and Adam as the Swan - had to work as a dance. In the event, it troubled us a long time. It felt very awkward with the lifts. I kept thinking "What does this mean? I didn't want to alienate an enormous part of the audience by making it a gay thing. I wanted it to be universal. I wanted the Prince primarily as a creature who wants to be loved."

To overcome the problems he

together in Tchaikovsky's score, a key moment occurs when the Swan Queen steps in front of the Prince, he cradles her in his arms, and rocks her from side to side. How does Bourne handle this moment in the music?

"There is a part of the Prince that can't accept what's going on, you see. But, at this point, the swan comes up and puts his arm/wing around him, and the Prince learns. In my version, the Prince

'I didn't want to alienate an enormous part of the audience by making it a gay thing. I wanted it to be universal'

returned to the basic premise: "It is a duet between a man and a bird. As soon as we made that realisation, everything fell into place. The swan's wings/arms could now be carrying, holding, wrapping him, and all the symbolism took care of itself. There can't be a distance between them, but the Prince wants the swan to hold him; and, at the very end of the duet, the swan wraps his wings round him."

In the traditional Royal Ballet text of *Swan Lake*, as violin and cello voices nestle closely

in front of them. To dance this, you have to have your weight completely back, then you come forwards and collect yourself. This was really tricky for the dancers to get."

In the traditional version, the ballerina reappears in Act Three as the enticing anti-heroine Odile.

"That was obviously one of the problems we had to solve: the 'Black Swan' scene. I had to work out: who is the Black Swan in my version? Well, he is the real-life version of the man of whom the Prince has fantasised so powerfully in Act Two. He's beautiful, he's free; everyone's attracted by him, everyone wants him. And the Prince, seeing him now, suffers severe jealousy."

"What I tried here - a filmic thing - is that the Prince puts himself into his mother's place. The Black Swan dances with all the women in the room, not least the Queen; and so the Prince projects on to him his own fantasy. And the duet here is what really gets me."

For Act Four, David Lloyd-Jones, music director and conductor, wanted to use Tchaikovsky's authentic 1877 score. This acknowledges Bourne, is hard for any choreographer, because it is climax upon climax.

Theatre A very visual curse

Taking Mercurio's dying curse as his cue, Peter Brooks has devised *A Curse on Both Your Houses*, a visually arresting though intellectually confused performance piece for the National Youth Theatre.

What do 24 young performers gain from being scene-shifting speechless automata, or from a piece which does not seem to know why it is pitching men against women (rather than Capulets against Montagues, or Sharks versus Jets) as aggressive anti-lovers in a war-zone?

Meanwhile Rosalind, Romeo's jilted lover, looks down from a high window on to the bullet-strafed piazza, and weaves a narrative which, after an hour and a quarter's worth of 24 tableaux vivants, smartly concludes that though she has been unlucky in love, at least she has lived to regret it.

It does look good. It is like a three-dimensional film, rolling the credits at the start and is staged behind a gauze, letter-boxed like a cinema-screen. Close-ups of screen lovers are projected in slow-motion behind the action. The set changes constantly and lighting fluctuates from crimson to stark grey. Machine-gun fire punctuates Jeremy Peyton-Jones' pounding piano-and-drum score.

Sundry snippets of Shakespeare emerge from the din. So too do trite sub-textual fragments: "I know he's a womaniser," complains a young woman's voice; a phone call from an absent working dad echoes "hello darling, how are you?" "What's summer?" Perhaps Brooks and his team want us to know that this, and not teenage suicide, is the humdrum consequence of adolescent romance?

However sceptical one may feel about the purpose of this work, one cannot help being overwhelmed by some of the stage images.

Simon Reade

The Place Theatre until September 14. Sponsored by Hanson plc.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● A Hundred Photographs: exhibition showing a selection of works from the museum's photography collection, including works by Man Ray, Robert Frank, Ed van der Elsken, Nan Goldin and Nobuyoshi Araki; from Sep 14 to Nov 17

BARCELONA

EXHIBITION
Museu Picasso Tel: 34-3-3196310
● Picasso and the Linocut: this exhibition features 66 linocuts from the collection of the Museu Picasso. Between 1954 and 1964 Picasso devoted great attention to the linocut. His merit lies in the innovations that he made in this medium which brought about the consolidation of its identity and a substantial change in its procedure; to

BERLIN

CONCERT
Philharmonie & Kammermusikkolleg Tel: 49-30-2614383
● Murray Perahia: the pianist performs works by Scarlatti, J.S. Bach and Schubert; 8pm; Sep 12

EXHIBITION

Kupferstichkabinett Tel: 49-30-26629598
● Aus der Klassischen und Späteren Moderne: exhibition in Kontext der Sammlung; this exhibition focuses on drawings and graphic works that were added to the museum's collection over the last five years. Artists featured are Picasso, Camille Graesser, Alf Lechner, Dan Flavin, Dennis Oppenheim and Christian Boltanski. A complementary selection of works from the museum's collection provides a context for these recently acquired works; to Oct 13

OPERA

Staatsoper Unter den Linden Tel: 49-30-2082861
● Der Fliegende Holländer: by Wagner. Conducted by Jun Märkl and performed by the Staatsoper Unter den Linden. Soloists include Gustafsson, Bornemann, Grundheber and Vogel; 7.30pm; Sep 13

BRUSSELS

CONCERT
Palais des Beaux-Arts Tel: 32-2-5078466

● Orchestra of the 18th Century: with conductor Frans Brüggen and violinist Thomas Zehetmair perform works by Haydn, Beethoven and Rameau. Part of the Festival van Vlaanderen; 8pm; Sep 13

CLEVELAND

EXHIBITION
Cleveland Museum of Art Tel: 1-216-421-7340
● Dutch and Flemish Landscapes from 1450 to 1650: this exhibition explores the development of landscape in northern Europe through mid-15th to mid-17th century prints, drawings, paintings and manuscripts. Exhibition on the occasion of the retirement of art historian Walter Gibson from his post as Case Western Reserve University's Andrew Mellon Professor of Humanities; from Sep 10 to Nov 3

EISENSTADT

CONCERT
Schloss Esterhazy - Festspiele Eisenstadt Tel: 43-2662-61866
● Philharmonie und Baucels: by Haydn. Conducted by Trevor Pinnock and performed by The English Concert and The Little Angel Theatre. Soloists include Nigel Robson, Jennifer Smith, Jani Barn and Benjamin Butterfield. Part of the Haydnstage; 8pm; Sep 10, 11

HELSINKI

CONCERT
Finlandia-talo - Finlandia Hall Tel: 358-0-40241

● Radio Symphony Orchestra: with conductor Jukka-Pekka Saraste and mezzo-soprano Jean Stilwell perform works by Mussorgsky, Berio and Prokofiev. Part of the Helsinki Festival; 7.30pm; Sep 11

LONDON

CONCERT
Royal Albert Hall Tel: 44-171-5888212
● BBC Symphony Orchestra: with conductor Andrew Davis and violinist Sarah Chang perform works by Prokofiev, Tippett and Sibelius. Part of the BBC Henry Wood Promenade Concerts (Proms); 7pm; Sep 10

EXHIBITION

Barbican Art Gallery Tel: 44-171-6384141
● Erwin Blumenfeld: A Fetish for Beauty: retrospective of the work of 20th century photographer Erwin Blumenfeld (1897-1969). The exhibition features more than 350 pieces, drawn from the work he produced over 50 years, from his familiar fashion, portraiture and nude photography to land and cityscapes, architecture and still-lives. Also on display are early drawings, paintings and collages from his Dadaist period, and poetry and prose; from Sep 12 to Dec 15

OPERA

Royal Opera House - Covent Garden Tel: 44-171-2129234
● La Bohème: by Puccini. Conducted by Charles Mackerras and performed by the Royal Opera. Soloists include Amanda

Roocroft, Elizabeth Futral, Luis Lima and William Stimmel; 7.30pm; Sep 14

LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Kleinholz: A Retrospective: this exhibition presents the full range of Kleinholz's own work and his 20 years of collaboration with his wife and partner, Nancy Reddin Kleinholz. More than 100 pieces, ranging from intimate objects to house-scale environments, are displayed; to Nov 3

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-878-5500
● Two by Two: a review of the history of fashion, from 1700 to the present, in reference to males versus females. The exhibition studies fashion through the ages, comparing the clothes of men and women and reflecting on their mutual influences; from Sep 10 to Nov 17

PARIS

DANCE
Théâtre des Champs-Élysées Tel: 33-1 48 62 50 50
● Tango Pascale: a choreography by Hector Zazoua to music by Stazo, performed by the Ballet des Champs-Élysées. Soloists include Omar Ocampo, Monica Romero, Alberto Morra and Claudia Diaz; 8.30pm; Sep 11

EXHIBITION

Galerie Nationale du Jeu de Paume Tel: 33-1 47 05 12 50
● Un siècle de sculpture anglaise: exhibition focusing on 20th century British sculpture. The display includes works by Henry Moore, Barbara Hepworth, Tony Cragg, Richard Deacon, Jacob Epstein, Gilbert & George, Richard Long and Bill Woodrow; to Sep 15

SAN FRANCISCO

OPERA
Orpheum Theatre Tel: 1-415-961-4008
● Hamlet: by Thomas. Conducted by Yves Abel and performed by the Francisco Opera. Soloists include Ruth Ann Swanson, Judith Forst, Thomas Hampson, Robert Lloyd, Benoit Boutet and Kevin Langan; 7.30pm; Sep 12

VIENNA

OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Les Contes d'Hoffmann: by Offenbach. Conducted by Jun Märkl and performed by the Wiener Staatsoper. Soloists include Natalie Dessay, Eliane Coelho and Heinz Zednik; 8.30pm; Sep 10
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COMMENT & ANALYSIS

No wait at the gate

Long-range aircraft may help revive makers of business jets, says Michael Skapinker

During his struggle to take over the Fortis hotel company earlier this year, Mr Gerry Robinson, chairman of Granada, the UK television and leisure group, promised that victory would be followed by the quick sale of Fortis's corporate jet.

The battle won, Mr Robinson decided to keep the jet after all. Granada says it has changed its mind about disposing of Meridien, Fortis's international hotel chain - and the jet makes it easier for Mr Robinson and his team to visit the far-flung hotels, the group says.

Stories like these lift the spirits of manufacturers of corporate jets. They are desperate to shake off the image of the corporate jet as an empty of 1980s decadence. The corporate aircraft, they say, is a business tool, enabling senior executives to save time, find new markets and improve returns to shareholders.



Executive class: inside the Gulfstream V corporate jet

Mr Richard Santulli, chairman of Executive Jet, a US organisation which helps companies club together to buy aircraft, says: "Smart people have airplanes. The stupid people are the ones with money who still wait in line at the airport."

An increasing number of companies recognise the value of having their own jets, the aircraft-makers say. About half the buyers are in the US, but the manufacturers say that at last week's Farnborough air show in the UK they received inquiries from potential buyers in Europe and the Middle East.

South-east Asia is the most promising market, says Mr Bill Boisture, president of Gulfstream Aircraft of the US. "South-east Asia combines the tremendous creation of wealth with long distances," he says.

Companies which want to buy corporate jets will soon have a bigger choice. Three new jets are coming on to the market over the next few years, all boasting the ability to fly further, non-stop, than corporate aircraft have flown before: New York to Tokyo or London to Singapore.

The first, the Gulfstream V, is at present undergoing flight tests. Mr Boisture says

he has 85 orders for the aircraft, which can carry up to 19 passengers, with deliveries to begin next year.

A bigger competitor will be the new long-range Boeing 737s, which are being produced by a joint venture between the US companies Boeing and General Electric. Mr Borge Boeskov, president of the venture, says eight customers have already put down deposits for the aircraft which will carry between eight and 50 passengers.

Operating costs will be higher than for its two rivals, but the Boeings will have much more cabin space and will cost between \$35m (£22.5m) and \$40m each - only slightly more than the Gulfstream V and the Global Express.

How can companies, many of which have dismissed thousands of employees in the past few years, justify the expense, particularly when many of their remain-

ing staff are now relegated to the economy section of scheduled flights?

The manufacturers argue that leanly staffed companies are precisely those which need corporate aircraft. Companies now have fewer senior executives, and they cannot afford to spend their time waiting for connecting flights.

Mr Michael Graff, president of Bombardier's business aircraft division, says chief executives based in New York or Chicago might find they can travel easily on scheduled flights. But for companies based in cities with fewer flight connections, getting around on scheduled flights takes far longer. The chief executive of a retail company with its own corporate jet can visit 13 stores in a day.

Another reason companies are buying jets, the manufacturers say, is that many are doing business in new markets, such as China and the former Soviet Union, where scheduled air travel can be unsafe. Mr Boisture says he has customers who fly to remote parts of the former Soviet Union in their corporate jets and live in them while they are there.

Nevertheless, for \$35m an executive could make return trips between New York and London on British Airways' Concorde every day for 12 years, or fly business class between the two cities every day for 20 years.

The Washington-based National Business Aircraft Association suggests many companies are still resisting the idea of buying corporate jets, even those which can be purchased for less than the new long-range aircraft. Annual sales of new business jets worldwide peaked at more than 600 a year in 1981. In spite of the arguments of the manufacturers, the association says sales of new jets have been stable at between 200 and 250 annually for more than a decade.

Mr Santulli of Executive Jet, however, argues that these figures hide the true popularity of business jets. Unlike computer equipment, which is discarded after a few years, business aircraft fly for decades. All those sold during the 1980s are still being flown, he says, either by their original owners or by second-hand buyers. New corporate jets merely add to an already substantial fleet. In the US, the association says, there are nearly 6,000 corporate jets.

Mr Santulli, a former executive at Goldman Sachs, the US investment bank, 10 years ago came up with the idea of "fractional ownership" of corporate aircraft. Companies reluctant to buy a complete aircraft can buy a share of a jet instead, along with an annual number of flight hours.

Mr Santulli manages a fleet of 75 aircraft on behalf of 800 owners and has just started offering fractional ownership in Europe. He plans to add up to 20 aircraft, both large and small, to his fleet annually for the next five years.

He has doubts about how many companies will buy the newest generation of large jets outright. He says: "There are people who will buy them, but it will be a niche market. How big will the market be? I don't think even the manufacturers know."

Meltdown danger for investment managers

From Mr David G. Wallace.
Sir, Because I am responsible for looking after investments for clients I have built up a source of cuttings to which I refer regularly in the hope that this will help me avoid mistakes which others have made. One such cutting was an article from the Financial Times of November 27 1994, under the heading "The Icarus Syndrome". In this, John Train, the chairman of Montrose Advisers, explained why hot investment managers usually melt.

That article may or may not be produced again and therefore, in an attempt to help the private investor, take something positive and meaningful out of the current debacle surrounding Morgan Grenfell, I have re-quoted below three parts which I highlighted some two years ago and seem strikingly relevant today.

● "to go on achieving prodigious results, they assume increasing risks, skating on thinner and thinner ice. Eventually, it must break..."

● "Nothing exceeds like success - so the collapse, when it comes, is devastating..."

● "After enough success, one fancies oneself God-like..."

His final quote from La Fontaine struck a particular chord with me, and I think every investor should take note of it: "... every proud victor works his own undoing". Let's hope there are not too many others whose wings will melt like Icarus's: somehow I suspect there are, simply because fund managers are human and that is why proper checking systems will always be necessary.

David G. Wallace, Portfolio & Pension Management, 4 Redwood Crescent, Peel Park Campus, East Kilbride, UK

Eco-label serves a real purpose for consumers

From Mr Jerry Rendell.
Sir, Stefan Kay's criticism of the EU eco-label scheme (Letters, September 3), comparing it unfavourably with the Environmental Management and Audit Scheme (Emas), misses the essential point. The purpose of the eco-label is to give consumers information, at the point of sale, about products which have a reduced impact on the environment. Emas is a site-based scheme and gives no information to consumers. The two schemes are not in competition, they are complementary.

Your original article ("Eco-label scheme upsets paper makers", August 26) quoted an industry spokesman as complaining that the eco-label scheme was elitist. It is elitist in the sense of setting high standards but there are no "arbitrary quotas" as Mr Kay suggests. The only limit on the number of products which can be awarded labels

is that they must meet the environmental criteria.

The Paper Federation's attitude towards the eco-label scheme is disappointing. In response to evidence given before the House of Commons environment select committee earlier in the year, the chairman of the committee suggested that the industry was "milking". Despite the attitude of the federation, two UK brands of toilet paper and kitchen rolls (Co-op and Nouvelle) already have the eco-label. Others are likely to follow. There is also considerable interest in the criteria for copying paper. We hope that more manufacturers will take the opportunity to help their customers to make the right environmental choice.

Jerry Rendell, chief executive, UK Eco-labelling Board, Eastbury House, 30-34 Albert Embankment, London SE1 7TL, UK

Organising role in union

From Mr Ken Fuller.
Sir, Robert Taylor's article on the inspiration provided by the organising strategies adopted by US trade unions ("The state of the unions", September 2) claims that no British union has "staff wholly concerned with organising".

Not so. In the South East and East Anglia Region of the Transport & General Workers' Union, we have succeeded two officers organising work for the past three years.

More recently, we have appointed a senior organising assistant and, since July 1 this year, have employed two women recruiters. These, along with a further member of staff to provide administrative support, make up our

organising support unit. At the same time, we have trained 150 lay members in the techniques of recruitment and organisation. The other seven regions of the T&G are taking similar steps.

While we do not claim to have yet perfected our strategy, the results are encouraging. In the June quarter this year, our region increased its dues paying membership by 1,644 (1 per cent).

Ken Fuller, regional organiser, South East and East Anglia, Transport and General Workers Union, "Woodberry", 215 Green Lanes, London N4 2BB, UK

Same long-term picture

From Mr Christopher Johnson.

Sir, In your leader, "French woes" (September 5), you say: "Over the six years to the second quarter of 1996 the economy expanded at an average of 1.2 per cent a year." This is exactly the same as the rate of growth of the UK gross domestic product over the same period.

There are two main differences. British growth was more variable than French, with a deeper recession in 1991-92, and a stronger recovery in 1993-94. The timing of the British cycle was earlier, with the low point in 1991 compared with 1993 in France.

Economic policy in both countries is open to

criticism. Let us not delude ourselves that ours is decisively superior to theirs over the medium or long term.

Christopher Johnson, chairman, British section, Franco-British Council, 47/49 Stratton Ground, London SW1P 2BY, UK

Average French economic growth over the six years to the second quarter of this year was 1.1 per cent, not 1.2 per cent, because growth in the latest 12 months was 0.3 per cent, not 1.2 per cent. Corresponding adjustments apply to the leader of September 6, "Reforming Germany". French average growth over the past five years was 1.1 per cent, not 1.3 per cent - Editor

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Bernard Simon on the human pressures changing Banff In the way of the wildlife

ON THE BEATEN TRACK
William van Horne, the railway pioneer, said: "If we can't export the scenery, we'll import the tourists."

When Canadian Pacific opened its transcontinental line through the Rocky Mountains in 1886, Van Horne's prescription for attracting wealthy visitors has turned out to be more successful than he could have imagined. Banff National Park - which straddles the Canadian Pacific track - now draws some 4m people a year to its breathtaking mountains, turquoise-coloured lakes, and profusion of bears, wolves and other wildlife.

But the influx has triggered an emotive debate. Can a wildlife sanctuary withstand such a human onslaught? Should the number of visitors be limited and, if so, how? What can be done to protect the animals, fish and plants?

The concerns are not limited to fringe environmental groups. Mr Charlie Zinken, the park's superintendent, says: "We recognise there are stresses, and we want to deal with them."

Concern centres on the town of Banff, which lies among mountains and forests just inside the park's eastern boundary. Signs on the town's access road warn of moose crossing. But visitors strolling down Banff Avenue can be excused for not taking the warning seriously.

The traffic would do justice to a busy city suburb. So would the shops, which include outlets of Polo-Ralph Lauren, The Body Shop and Alders duty-free. About 40 hotels plus numerous bed-and-breakfasts have sprung up in Banff and Lake Louise, a 45-minute drive away.

Canadian Pacific's sprawling 800-room Banff Springs Hotel, built a century ago to save hauling heavy mining cars over steep mountain passes, boasts a new conference centre, and has applied to extend its golf course by another nine holes to 36 holes. Although Banff has a permanent population of only 6,500, its sewage system is designed for 45,000.

"To turn a national park



A wilderness no more: carriage rides for Banff's tourists

into a shopping mecca is a perversion," says Mr Michael Going, chairman of the local branch of the Canadian Parks and Wilderness Society. "We believe people should be going to Banff to appreciate nature. But if you give them golf courses and convention centres, they'll go for that."

Humans have also left an indelible mark in more remote areas of the 6,850 sq km park. Three ski resorts lie between Banff and Lake Louise. And at some mountain lakes so many tourists have been destroying fragile lichen and wild flowers that the park authorities have been obliged to build paved walkways.

Mr David Schneider, a University of Alberta biologist, says efforts to turn Banff into an angler's paradise have had unintended results. Fish introduced into lakes have eaten and eliminated some species of insects and crustaceans. The park's only indigenous fish, the Banff long-nosed dace, has disappeared.

The park's wildlife was dealt a tough hand from the start. The town of Banff was established 150 years ago in a place that scientists now realise is a junction of prime migratory and feeding corridors for animals.

Since the park's inception, it has been bisected by the busy Trans-Canada highway - at present being widened to four lanes. Tight entry restrictions that protect many other wildlife sanctu-

aries are thus not an option for Banff.

In spite of past mistakes, the future may not be as bleak as pessimists believe. Developed areas still cover only 1.5 per cent of the park. Banff's town boundaries are set by law, and no new hotels or ski resorts will be allowed. Any other development must pass an increasingly stringent approval process.

Existing hotels will add about 500 beds this year, but the scope for further expansion is dwindling. Mr Dave Day, a former parks superintendent who now works as a consultant to local businesses, estimates that the three ski resorts have reached about 75 per cent of capacity.

A committee of experts is expected to propose further curbs on development and measures to protect wildlife in a widely awaited report due to be published next month.

Conservation efforts have already been stepped up. The latest stretch of the Trans-Canada highway to be widened includes several 50 metre-wide animal overpasses. "There are more people and more large animals than have ever been here before," Mr Day says.

Park officials hope the curbs on new accommodation will impose a ceiling on the number of visitors. In an effort to balance the summer rush with more winter visitors, the Banff and Lake Louise Tourist Association

devotes more than 80 per cent of its promotional efforts to the ski season, extending from early November to early May. And Parks Canada is trying to lure people away from the most crowded parts of the park as part of what it calls "demand management". Its publicity material increasingly promotes the less-travelled parts of Banff, and other, less popular parks nearby.

Limiting facilities inside the park, however, has raised new issues. With development in Banff at a near-standstill, a building boom has erupted in villages just outside the park boundary. That could push up the number of day visitors, as well as posing an environmental threat of its own.

One aim of the "demand-management" policy is to avert the logical consequence of demand for accommodation exceeding supply: sharply rising prices. Even now, a modest motel room in Banff costs C\$120 (£56) a night in the summer season. House prices in Banff are comparable to those in Toronto and Vancouver.

The concern is that accommodation in the park will soon be accessible only to the well-heeled tourists that van Horne and Canadian Pacific had in mind a century ago.

This is the ninth and last in a series on the places changed by mass tourism

FINANCIAL TIMES

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Monday September 9 1996

Reality dawns in Tralee

These brave souls who still expect the European Union to make a big step in political integration next year will have found the weekend meeting of foreign ministers in Tralee a salutary spectacle.

Just a month before a special summit of EU leaders to discuss institutional reform, substantive discussion of the issue was notable by its absence. Instead, ministers paraded their differences on the main international question of the moment - last week's US action against Iraq and underlined again how far the union is from a plausible common foreign policy.

There may be a positive aspect to this. Member states' foreign policy divisions, after all, represent genuine limits on collective action which no amount of institutional tinkering can disguise.

That a more ambitious agenda is almost bound to fail is not due solely to British recalcitrance - although until next year's UK election, and quite possibly beyond, that will be a sizeable obstacle. It also reflects broader European realities.

Single currency
There is no very broad-based public appetite for a further extension of the union's competences at a time when most governments are preoccupied with the effort to comply with the fiscal and economic criteria required under Maastricht to construct a single European currency.

Tax cuts going cheap

Who will buy my tax cuts? Big and small investors alike are cooked by experts! The traditional London street cries of election time have begun early this season, as Conservative and Labour parties set out their wares before the party conferences. Although polling day is not expected until May, it is already clear that income tax cuts will generate much noisy abuse among the vendors of party policies.

Last week, Mr Tony Blair, the Labour leader, opened his campaign by reaffirming that he wants a starting rate of income tax of 10 per cent. The yells of derision from the opposing hustings were sadly predictable. Mr Blair was not only stealing his rivals' clothes; he was trying to sell them cheap.

The truth is that the cost to the exchequer of introducing a 10 per cent tax band depends entirely on the width of the band. The Tories' counter-offer of a 20 per cent basic rate of tax might also cost about £2bn, with the same proviso. Both offers are almost worthless without a completion date.

Both sides know that the government's finances have deteriorated sharply, partly because of disappointing revenues. The Treasury expects this year's public sector borrowing requirement to be £27bn. This is £1bn more than it forecast a year ago, and hangs heavily over any possibility of tax cuts. After five years of tight control of public spending, significant cuts would now require unpopular reductions to services. So after the election, it is at least as likely taxes will need to rise as to fall.

Knockabout rhetoric
There are thus dangers in the knockabout rhetoric of phoney tax offers - and not just in the UK. Tax cutting is proving a potent campaign slogan in the US elections. And in France last week, Mr Alain Juppé, the prime minister, announced FF775bn (€9.5bn) of income tax cuts despite his government's painful efforts to

The managed care remedy

Mark Suzman asks if savings from global healthcare reforms will prove enough to relieve the pressure on public finances

Few phrases strike more terror into the hearts of modern politicians than "healthcare reform". It blighted the first half of the Clinton presidency in the US and still haunts governments from the Netherlands to New Zealand which have tried to overhaul their health systems in the last few years.

Nevertheless, growing pressure on public finances is forcing countries from Germany to Japan to make savings in their fast-rising healthcare bills. Even President Clinton, despite the failure of his attempt to introduce compulsory health insurance, has just approved legislation designed to broaden private health cover.

But after more than a decade in which the focus has been on restructuring health systems, the emphasis is changing. Increasingly the drive is for reforms that encourage doctors and nurses to choose the most economical form of treatment rather than tinkering with the systems within which they operate.

While governments have found that big changes to introduce market mechanisms in health systems have had some success, costs have still risen, says Dr Mikko Viinonen, health services management adviser for the World Health Organisation's European office. "The focus has now changed from how to finance healthcare to how to manage the delivery of it better."

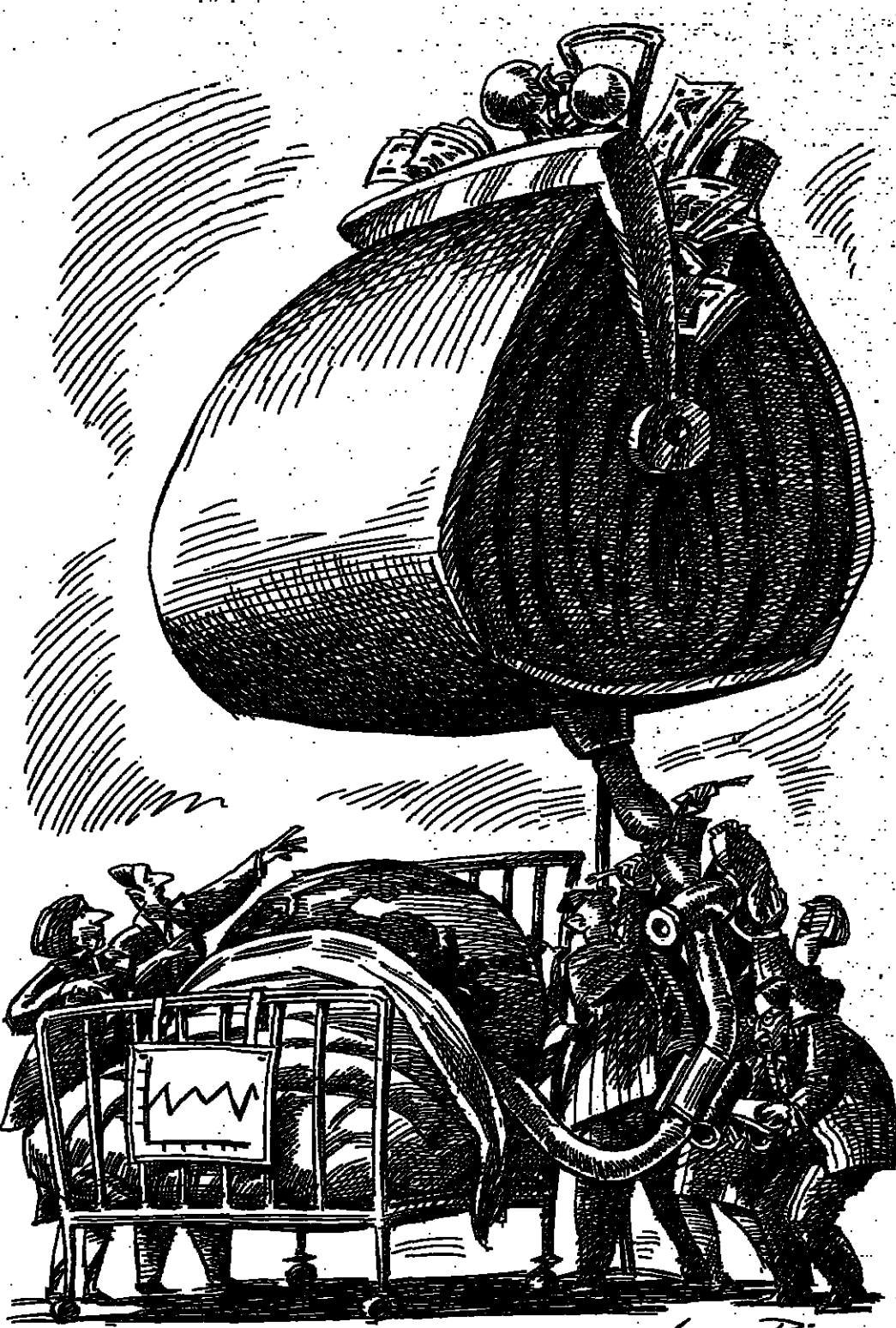
Spending on healthcare has doubled in the last 30 years in the industrialised countries of the Organisation for Economic Co-operation and Development. It now averages nearly 9 per cent of GDP and the growing costs of treatment mean it is still rising. For example, the British Medical Journal reports that the cost of a course in statins, a drug that reduces deaths in patients with coronary artery disease, could cost \$54,500 (€35,389) a year.

Yet the public expects a rising standard of medical care. In economic terms, healthcare is regarded as a "merit good", as people become wealthier they are prepared to spend proportionately more on healthcare. So health spending tends to rise faster than GDP. More pertinently for politicians, this also means that any attempt to restrict the treatments available tends to be furiously resisted.

The real problem for governments is that most of the cost of healthcare is borne not by individuals but by the state - funded either by general taxation (as in the UK and Sweden) or compulsory insurance (as in Japan, Germany and the Netherlands). Even in the US, which relies most heavily on private insurance, public medical programmes for the poor and elderly now consume a rising proportion of the federal and state budgets.

With pressure growing to keep a tight rein on public spending, health is an obvious target for savings. But, as a recent OECD study concludes, these have been difficult to achieve: "Without more fundamental reforms... tax increases or service cutbacks appear unavoidable."

To reduce costs, most governments have begun to put pressure on individuals to shoulder a greater share of health costs. For example, patients are increasingly required to contribute to



the cost of drugs, or pay charges for the use of hospital beds. More people are also taking out private health insurance, usually citing declining standards in the publicly provided services. Other measures have been taken to control spiralling expenditure on drugs. Most countries have now introduced measures to encourage doctors to prescribe cheaper "generic" drugs rather than more expensive brand-name products when appropriate.

healthcare organisations, which are often monopoly suppliers in their areas - to cut costs. The most striking examples of such changes have been in countries that fund healthcare directly through tax revenue. Both the UK and New Zealand have created "purchasers", publicly funded health authorities that commission healthcare services from "providers" such as hospitals and other treatment centres, which are free to compete for business. "There is no doubt that the reforms have led to efficiency improvements although these have not been as great as those in other service industries over the past 10 years," says Mr Kingsley Manning, director of Newchurch & Co, a UK health sector consulting group.

Countries which rely predominantly on compulsory, independent insurance funds are now adopting a similar approach. In the Netherlands and Germany health insurance funds which mostly used to cover people in particular industries have been actively encouraged to compete for business elsewhere. However, many countries are now moving beyond managed competition in the search for savings. The new buzzword in healthcare reform is "managed care", a broad, loosely connected range of health management reforms designed to make treatments more cost-effective.

OBSERVER

Clash of Cultures

Great media excitement in Sweden over a rare, verbal and very public battle between Håkan Mgren, chief executive of pharmaceutical company Astra, and the country's stark-tongued culture minister, Marita Ulvskog. The unending exchange of the began late last month when social democrat Ulvskog used a TV studio debate to attack Mgren's recent award of business-related share options. Ulvskog stated that the award was an example of a new breed and "swiftness" which was against the nation's bed principle, she went on to blame private business for the slump in the Italian stock market that has triggered a recent string of corruption scandals in social democrat-controlled local government.

Mgren, thought to be Sweden's highest paid industrialist with an annual pay packet close to £1m, hit back in a newspaper article accusing Ulvskog of behaving irresponsibly. In turn, Ulvskog accused Mgren of seeking to suppress freedom of expression, alleging that it was offensive to accept huge share options at a time when Astra had reported "disappointing" results. The unending brawl has just

taken its latest twist, with Mgren declining to meet Ulvskog to a head-to-head radio debate. The refusal prompted Ulvskog, a former newspaper editor, to accuse her adversary in a half-page article of "immense cowardice". Mgren, one of a group of a dozen or so top Wall Streeters that have come to be known as "managed competition". This approach aims to introduce market-type incentives to stimulate the managers of

Popping in
If you think a polite but firm invitation to explain yourself to the Italian stock market regulator offers few opportunities to score style points then think again. Renzo Francesconi has just managed to pull off the appointment with characteristic Italian flair, following a request from Conso, the Italian watchdog, to justify his interesting little claim that Ulvskog's interim results were misleading.

Francesconi assigned his post as director general of the spaghetti group's holding company on Wednesday and of six weeks after joining all

proving a temporary suspension of the company's shares. His claims that the real figures were much worse than the published results forced Ulvskog's chief executive to deny the allegations and hint that Francesconi was probably stressed out.

No sign of that, however, when the former executive turned up for examination at Conso's Rome headquarters in chipper form on a flashy little motor scooter. "Do I really look stressed?" he quipped to the waiting paparazzi before happily putting off into the sunset, as captured by Audrey Hepburn and Gregory Peck about their Vegas in Roman Holiday.

Clever move
One part of the United Nations machine clearly does not give a fig for UN budget crises. The World Intellectual Property Organisation, the UN body that looks after various international treaties on patents and copyright, plans to build itself a stylish and expensive new building right next to its existing headquarters in Geneva's leafy UN district.

The Clinton administration, especially when in election year, is charged with Republican charges of UN extravagance. It finds the idea a bit much to swallow with Daniel Spiegel, US

ambassador in Geneva, calling the grandiose plan "unacceptable and indefensible". Spiegel hopes to squash the idea at today's joint meeting of Wipo's budget and premises committees and claims Geneva is swash with empty office space available on reasonable terms. But Wipo thinks differently and is not best placed to compete for land on the project, planning instead to award the contract to Stainer, the Swiss contractor that owns the land in question.

Nor is Washington pleased by the fact that Wipo intends to use its "own money" from international patent fees for the project - given that more than 80 per cent of the 1995 fee pool by US companies and individuals. Critics say Wipo is in any case too high, judging from the large and mounting kitty which Wipo is squandering away.

The US accepts Wipo's need for more space to accommodate its rapidly expanding patent filing activities. But Spiegel insists that an extravagant new building flying the UN flag would send absolutely the wrong signal at a time of financial crisis in the United Nations system. Wherever Wipo would go, Washington thinks it should be done in a way that would not be done in the world as a whole. But the seller's market, after all, cannot last for ever. There will be a time, not so very far distant, when the main driver behind the sale of British shares will be the relative prices of the two goods, when that time comes, your chief competitor will be the United States.

- encouraging hospitals and doctors to approve a wide range of expensive, often unnecessary, tests and treatments.

In an effort to cut the premium for their employees' health insurance, US employers have turned to "health maintenance organisations". These private companies control costs by combining the functions of insurers and treatment providers. Although they offer a guaranteed level of care for members, they use their control of treatment providers to restrict access to doctors, drugs and hospitals. This allows them to manage all aspects of health delivery from prescription patterns to hospital bed usage and charge fees below standard insurance premiums.

To avoid incentives for over-treatment, most health maintenance organisations employ their doctors on fixed salaries, often with performance incentives for keeping treatment costs to a minimum. They also require patients to see family doctors before getting an appointment with more expensive specialists or to screen out unnecessary expense.

The organisations cover about a third of US patients and have been successful in curbing costs. Latest US government estimates show total health costs rose only 6.4 per cent in 1994, the lowest rise since 1980 - a slowdown largely attributed to the spread of managed care techniques. "Managed care has been very successful in the US and has some lessons for other countries," says Dr Josep Figueras, a lecturer at the London School of Hygiene and Tropical Medicine and co-author of a new WHO study on European health reforms.

Not all of these changes are completely new. The use of family doctors as gatekeepers for access to more specialised services has long been the cornerstone of the UK's relatively cheap National Health Service. But the principle of developing new ways to monitor and manage patients and doctors within hospitals and medical practices directly is gaining popularity internationally.

The WHO study concludes that the reason for this spread is that the broad supply-side measures that comprise managed care are now the policies "most likely to achieve social and economic success" in health reform. But as Mr Robert Maxwell, chief executive of the King's Fund, a London-based health policy think tank, points out, the trend of health spending is inexorably upwards. Even the savings brought by managed healthcare may prove insufficient to sustain public healthcare systems.

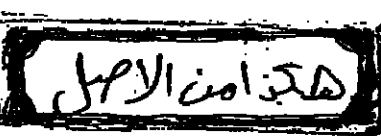
To some extent, the managed care changes may be less a sign of convergence than desperation. "The move to introducing market-type reforms is slowing," says Mr Chris Ham of the Health Services Management Centre at the University of Birmingham. "Such convergence as there is in health policies now is towards attempts to influence the working patterns of practitioners directly."

The new approach has been pioneered in the US in an effort to curb its bloated healthcare costs - at 14 per cent of GDP by far the highest in the OECD. The comprehensive private insurance which covers most Americans pays the full cost of all treatment

Financial Times

100 years ago
News from Rhodosia
News from Rhodosia shows that already in 1896, the British were active in the principality that the early bird catches the worm and most of us can afford them a friendly hope that they may not catch a stray bullet or several bullets in the chest. We have seen the country in the neighbourhood of the junction of the Sudd and Lualaba rivers to locate aboriginal claims. We may not witness the same scene as a whole for many months to come, but it looks like the time has come for the more accessible districts.

50 years ago
Spain on Wall St
One editor in Wall Street's span of nervousness last week was a return to the recurrent fear that the post-war sellers' market, when everyone has sold whatever he can make, was nearing its end. Obviously that was premature, there is still a great amount of re-stocking to be done in the world as a whole. But the seller's market, after all, cannot last for ever. There will be a time, not so very far distant, when the main driver behind the sale of British shares will be the relative prices of the two goods, when that time comes, your chief competitor will be the United States.



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Iraq-backed Kurds take towns near rival base

By John Barham in Ankara, Lionel Barber in Tralee and Nancy Dunne in Washington

Kurdish forces backed by Iraq yesterday took two strategic towns in northern Iraq, threatening the city of Sulaimaniya, the region's biggest town and stronghold of Mr Jalal Talabani, leader of the Patriotic Union of Kurdistan (PUK). Diplomats monitoring the situation from Turkey said they feared a refugee crisis could develop. The PUK said thousands of people were already fleeing.

Last week, top members of the pro-Iraq Kurdistan Democratic Party (KDP) said an assault on Sulaimaniya was "not in our programme". Diplomats say the KDP may be attempting to secure power supplies from a nearby hydroelectric scheme for Arbil. Power was cut to the city on August 31, when with Iraqi help it fell to the KDP, causing a water shortage.

US officials portrayed the turbulence in northern Iraq as a civil war in which the US

wanted no part and said they had no evidence Iraqi troops were involved in the latest fighting.

Meanwhile, Mrs Tansu Ciller, Turkey's deputy prime minister, said Ankara planned to install electronic systems along its southern border with Iraq to enforce a "security zone" 10-25 kms into Iraqi territory to halt Kurdistan Workers Party (PKK) incursions.

She said the systems would make a permanent Turkish military presence unnecessary. Turkish officials have said people living within the proposed zone would have to be evacuated and offered compensation.

Mr Saïben Disayee, Ankara representative of the KDP enclave's northern sector, said Turkey has not told his group how the zone will operate. Although villages and farm-land would have to be evacuated, the KDP does not oppose the plan.

But Iraq warned Turkey against going ahead with its plans to set up the security zone. "We will take every nec-

essary action in our part to prevent it," said Hamed Yousef Humadi, head of the culture and information committee of Iraq's parliament.

The Turkish plans also drew a strong reaction yesterday from Arab states. In Syria, a ruling Baath party newspaper said Turkey's move was under "pretexts entirely unrelated to reality" and warned it would damage relations.

Egypt, comparing the Turkish move to Israel's self-styled security zone in southern Lebanon, said it would seek United Nations Security Council discussions on the matter. The Gulf Co-operation Council, grouping Saudi Arabia, Bahrain, the United Arab Emirates, Oman, Kuwait and Qatar, also called on Iraq's neighbours to cease interfering.

Britain and France bickered over policy toward Iraq, at a meeting of foreign ministers in Tralee, Ireland, intensifying divisions within the EU over how to respond to last week's US military strikes.

Fallout from US strike, Page 4

Exchanges back fight against US fraud law plan

By Christopher Parkes in Los Angeles and agencies

Leading US stock exchanges have given more than \$500,000 to back a campaign against a Californian initiative to make it easier for investors to sue for securities fraud.

The contributions, which bolstered the fighting fund to more than \$5m, illustrate anxiety outside the state that the measure - Proposition 211 - may be approved in November's popular vote and pass into law.

The measure would in effect nullify in California recent federal legislation to reduce "frivolous" litigation by making it harder for individual investors to sue.

Under one provision a shareholder could make a fraud claim following a sudden drop in a company's share price.

Opponents fear the extreme volatility of high-technology stocks could put the whole sector at risk of constant harassment in the courts. "If enacted, this would decimate Silicon Valley," according to officials at Nasdaq, which gave \$250,000.

Opponents also fear California would become a launch point for legal actions against companies based outside its boundaries. The state's reputation as a policy haven for the volatile high-tech sector has also heightened tensions. Other Californian initiatives copied elsewhere include the "three-strikes" laws which automatically condemned three-time offenders to sentences of 25 years to life.

The contributions mark a further success for the American Electronics Association, a lobby group embracing most of the state's high-technology companies in Silicon Valley.

It has already won the support of President Bill Clinton, anxious for industry's backing, and Republican presidential candidate Mr Bob Dole.

The initiative's supporters, grouped under the banner of the Congress of California Seniors and Citizens for Retirement Protection and Security (CRPS), attacked the exchanges' intervention. It noted that about \$3.6m of the \$5.2m fighting fund came from "the east coast and other out-of-state" financial interests.

Backers of the CRPS include the state Democratic party, Calpers, the public employees pension fund - the biggest of its kind in the US - and about 100 consumer groups.

Even before it was formally launched, Proposition 211 was one of the most popular initiative suggestions of recent years. It attracted more than twice the number of signatures necessary for it to be placed on the November ballot sheet in the first place.

THE LEX COLUMN Lighting the gas



It is easy to make a case that Gazprom's promised international share placement will prove nothing more than hot air. The vast Russian company may indeed boast one third of the world's known gas reserves on paper. And it is doubtless true that if these reserves were ever as highly valued as those of Exxon, then Gazprom would be worth more than the entire London Stock Exchange.

The snag is it will probably take a decade of auditors wandering around Siberian bogs to work out how much gas is commercially recoverable - leaving aside what Gazprom's countless related factories, farms, banks and satellites are worth. Russian companies' balance sheets will start to read like descriptions of national life; Lukoil includes cattle in its assets. Gazprom also carries unquantifiable political risks given that its powerful government patrons may lose their grip. Alexander Lebed, the tough nut intent on invading the Kremlin, talks about rationalising Gazprom when he becomes president - or at least removing tax privileges, which would put a nasty dent in net income.

As ever, the deal will be determined by price. The worry is that Gazprom's more Soviet-minded directors still equate size with success and are looking for a superlative price. The more comforting thought is that even Gazprom cannot afford to burn international investors, given its future capital needs. Gazprom will have to raise billions more if it is to tip the Norwegians and Algerians to supply Europe's gas markets.

side institutional investors, and these should now capitalise on their voting power. The least they should demand is a more detailed set of accounts. These might confirm suspicions that Olivetti has kept its personal computer division afloat by dumping products on its services division instead. But this is a company which desperately needs to rebuild trust, and transparency is an obvious starting point.

Investors should also force the group to draw a clear line under its unhappy past. A number of independent non-executive directors should be appointed to a board which still contains several friends of Mr De Benedetti. The company appears badly in need of corporate checks and balances. Since Olivetti has shown no signs of wanting to promote change from within, investors should start imposing it from without.

Morgan Grenfell

Around 60 per cent of the £300m cash resources of Morgan Grenfell's three troubled funds was passed on to selling unitholders in just two days. This begs the question of what happens if the money runs out. There are two ways in which investors in these funds could be hurt. Morgan Grenfell has already promised to cover any short-fall between the stated value of the funds and their genuine worth, removing one concern. The other is that a stampede of sellers forces the fund manager into a fire sale of assets to meet redemptions. This is a significant worry with these funds, given their heavy weighting in obscure and illiquid Scandinavian technology stocks. And it is the loyal investors who stood by Morgan Grenfell who would suffer, since the dumping of assets by the funds would reduce both their value and quality.

Morgan Grenfell could avoid such a threat. If it clearly states that it will buy any redeemed units, and hold them for perhaps three months, it will remove the threat of funds having to dump assets. No doubt, Morgan Grenfell is wary of promising to buy in a potentially enormous number of units. But if it makes this promise, it is less likely large numbers of investors will sell. And it can dispose of units later on, when the storm of controversy has subsided. Besides, unitholders are understandably nervous at present, having seen the value of the fund fall by 5 per cent in two days. If Morgan Grenfell allows a panic sale to proceed, the damage to its reputation will be sufficient to make the cost of any units look negligible.

Banks deal

Continued from Page 1

two years, and to have had average monthly outstanding loans of \$100m for the previous year. Mr Di indicated that China's negotiations to enter the World Trade Organisation were a factor in the decision to permit foreign banks to trade in local currency. Under WTO rules, Beijing would be obliged to further open its financial services to foreign competition.

He also said Beijing would soon approve a new batch of foreign bank branches in the capital. Five were approved last year, including Citibank and Hongkong and Shanghai Banking Corporation. Another three have been approved this year - First Chicago, Australian and New Zealand Banking Group and the Korean Exchange Bank. Other institutions under consideration include Bank of America.

French companies urged to improve readiness for Emu

By Gillian Tett and David Owen

Large French companies could face severe problems in 1999 unless they speed up their preparations for the planned introduction of the European single currency, a study sponsored by the French central bank and finance ministry warns.

The study, based on a survey of several large companies, found that most have not yet seriously considered the practical commercial impact of the euro, in spite of the government's determination that it should come into effect in 1999. A report based on the study warns that companies' senior executives must become more involved. In many companies, any preparatory work for the single currency is being undertaken by junior and middle managers.

The report also indicates that the logistics of the three-year period for the switch to the euro are likely to be extremely complicated for the corporate sector.

In particular, it observes, big companies are likely to take different approaches to the use of the euro between 1999 and 2002. Some groups plan to use the euro immediately, and others want to delay until 2002, which could create severe difficulties for their banks, suppliers and customers.

The findings have emerged

as part of a detailed study of 20 of France's largest companies, including France-Télécom, Renault, Rhône-Poulenc, Promodes and Electricité de France, for internal distribution within the Banque de France and the Ministry of Finance.

French officials insist that problems revealed in the report will be faced by all countries participating in Emu.

"We think this is the first study of its kind in Europe - this shows we are taking the problems seriously," Mr Raphaël Joliver, author of the report, said.

The findings have generated considerable concern in French business circles. The Patronat, the French employers' federation, has launched an information campaign to persuade companies to take the currency switch issue seriously.

In a detailed and strongly-worded document, entitled "Euro: the countdown has already started," the Patronat warns that it is "indispensable" for French companies to "start thinking now about the practical details of the euro's introduction."

It argues that the more planning companies do in advance of the currency's arrival, the greater will be the opportunities for keeping the costs associated with the change to a minimum.

Okinawa

Continued from Page 1

general election soon after that meeting. Normally, an election would take place next summer.

Yesterday's referendum is the climax of the latest surge of islanders' resentment, which was triggered by the rape of an Okinawan schoolgirl last September, for which three US servicemen were convicted.

Mr Ota responded by refusing to renew US leases, forcing Tokyo to obtain a supreme court ruling against him last month.

Even before it was formally launched, Proposition 211 was one of the most popular initiative suggestions of recent years. It attracted more than twice the number of signatures necessary for it to be placed on the November ballot sheet in the first place.

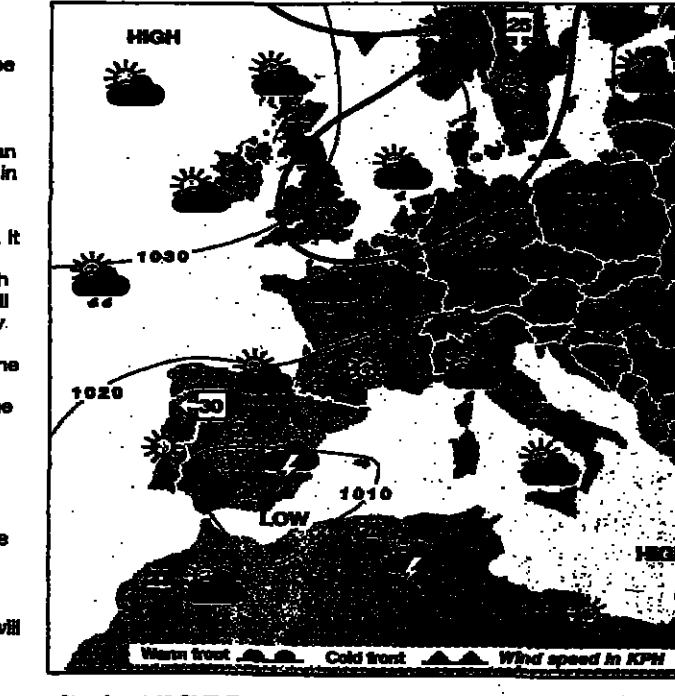
FT WEATHER GUIDE

Europe today

The western Mediterranean will be unsettled. Eastern Spain and Tunisia will have heavy showers, many with thunder. Central and eastern parts of the Mediterranean will remain dry with sunny spells in Italy and Greece. It will be cool over central Europe with light showers, mainly in the afternoon. It will be wet over extreme eastern Europe and northern Turkey. High pressure north-west of Ireland will bring sunny spells and mainly dry conditions over the British Isles. France will have plenty of sunshine with occasional showers in the north. The Benelux will have some showers.

Five-day forecast

Over the next two days, strong high pressure will mean north-west of Ireland while low pressure will stall over the Baltic Sea. This will lead to fresh northerlies over northern and central parts of Europe. Eastern Spain and Italy will have heavy rain with thunder at times.



TODAY'S TEMPERATURES

Abu Dhabi	sun 30	Beijing	fair 26	Cairo	sun 28	Cardiff	show 18	Casablanca	sun 22	Frankfurt	fair 18	Geneva	sun 18	Gibraltar	sun 27	Glasgow	show 17	Hamburg	sun 20	Helsinki	sun 20	Hong Kong	sun 28	Honolulu	sun 28	Istanbul	sun 28	Dublin	sun 15	Jakarta	sun 28	Jersey	sun 22	Karachi	sun 28	Kuwait	sun 28	L. Angeles	sun 27	Limá	cloudy 17	Lisbon	sun 27	London	sun 18	Luxembourg	sun 18	Lyon	sun 18	Madrid	sun 24	Moscow	sun 24	Mumbai	sun 28	Manila	sun 27	Manchester	sun 17	Mexico	show 24	Miyazaki	sun 28	Nagasaki	sun 28	Nassau	sun 28	New York	sun 27	Nice	sun 22	Niagara	sun 20	Oahu	sun 28	Paris	sun 19	Perth	sun 19	Prague	cloudy 13	Rangoon	fair 22	Raytheon	cloudy 15	Rome	sun 28	S. Francisco	sun 24	Seoul	cloudy 27	Singapore	sun 31	Stockholm	sun 13	Shanghai	cloudy 17	Sydney	sun 22	Taipei	sun 28	Tel Aviv	sun 28	Tokyo	show 24	Toronto	sun 22	Vancouver	sun 19	Venice	sun 18	Vienna	sun 15	Winnipeg	show 13	Washington	sun 32	Wellington	show 14	Wexford	sun 15	Zurich	sun 15
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